# UNIVERSIDAD COMPLUTENSE DE MADRID

FACULTAD DE CIENCIAS POLÍTICAS Y SOCIOLOGÍA

# TESIS DOCTORAL

¿Esta vez es diferente? El desarrollo institucional de América Latina. Los casos de México y Argentina tras la gran crisis financiera de 2008

This time is different? The institutional development of Latin America. The cases of Mexico and Argentina after the great financial crisis 2008

MEMORIA PARA OPTAR AL GRADO DE DOCTOR

PRESENTADA POR

Ambrosio Moreno Moreno

Dirigida por

María Esther del Campo García
Rafael Dobado González

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**UNIVERSIDAD COMPLUTENSE DE MADRID**
FACULTAD DE CIENCIAS POLÍTICAS Y SOCIOLOGÍA

**TESIS DOCTORAL**

# ¿ESTA VEZ ES DIFERENTE? EL DESARROLLO INSTITUCIONAL DE AMÉRICA LATINA. LOS CASOS DE MÉXICO Y ARGENTINA TRAS LA GRAN CRISIS FINANCIERA DE 2008

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# THIS TIME IS DIFFERENT? THE INSTITUTIONAL DEVELOPMENT OF LATIN AMERICA. THE CASES OF MEXICO AND ARGENTINA AFTER THE GREAT FINANCIAL CRISIS 2008

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DIRECTORES

María Esther del Campo García
Rafael Dobado González

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Escribir una tesis, sobre todo mientras se compagina con un trabajo alejado de la Academia, es ardua tarea, además de ser un ejercicio fundamentalmente introspectivo, lo cual no va en menoscabo de la intervención de múltiples personas a las que debo mencionar.

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# ABSTRACT

The great financial crisis of 2008 is a very relevant event that has called the attention of innumerable analysts and has produced a large literature around its causes and effects.

If we refer to Latin America, this crisis has been the first one not to badly hit the region since the beginning of the twentieth century. Despite this striking evidence, analysts have not put much focus on this particular fact, and generally they dispatch it by invoking the benign terms of trade, due to the high prices of commodities driven by the demand from China. We believe that there are more than extra inflows from China to explain the behaviour of the region during this crisis.

We defend that apart from the conjunctural effects derived from the relative high prices of commodities around 2008, the region is in a process of structural/institutional change that is contributing to a better response to crises, and particularly to economic crises.

This process of change is gradual and had an enormous impulse in the late 1990s, and it is concomitant with changes at the political level, the economic level and the socio-cultural level.

We approach our research from a novel theoretical framework that combines elements from sociology and from economics, namely Modernization Theory (MT) and New Institutional Economics (NIE). These two theories are well-known, but we do not see them together in literature, and we believe that together they improve the explanatory capacity of the theories taken individually.

Stemming from this framework, we propose a shift from the traditional axis dictatorship-democracy to the axis that goes from limited access orders to open access orders.

Both theories stress the importance of the value system (or the system of beliefs as it is expressed in NIE) as a critical element to understand the process of institutional change. Hitherto, we bring up the concepts of authority relations vs exchange relations (or bargaining relations as it is expressed in MT) and how they relate to the shift from personal to impersonal exchange. We believe that there is an underlying shift in these relationships that is making the democratic institutions more resilient. Also, by focusing on this set of relations, we intend to overcome the excessive relevance that literature gives to extractive vs inclusive institutions. We believe that institutions of a colonial origin have been extractive in all cases, but the relations behind them have been different depending on the region.

However, this dissertation confronts hardship, for the topic that we are dealing with is very trending and subject to disturbances that deviate us from the underlying trend. You only need to read the media to realise what we are talking about. In the course of our writing, we will try to detach from the most immediate events and focus on the underlying trend that originates from the 1990s, to obtain causal relations.

# RESUMEN EN ESPAÑOL

La gran crisis financiera de 2008 es un evento muy relevante que ha llamado la atención de innumerables analistas y ha generado una extensa literatura en torno a sus causas y efectos.

Si nos referimos a América Latina, esta crisis ha sido la primera que no golpeó severamente a la región desde el comienzo del siglo XX. A pesar de esta evidencia impactante, los analistas no han puesto mucho énfasis en este hecho particular, y generalmente lo despachan invocando los benignos términos de intercambio, debido a los altos precios de las materias primas impulsados por la demanda de China. Creemos que hay más que simples flujos adicionales desde China para explicar el comportamiento de la región durante esta crisis.

Defendemos que, aparte de los efectos coyunturales derivados de los altos precios relativos de las materias primas alrededor de 2008, la región está en un proceso de cambio estructural/institucional que está contribuyendo a una mejor respuesta a las crisis, y particularmente a las crisis económicas.

Este proceso de cambio es gradual y tuvo un tremendo impulso a finales de la década de 1990, y es concomitante con cambios a nivel político, económico y socio-cultural.

Abordamos nuestra investigación desde un marco teórico novedoso que combina elementos de la sociología y de la economía, a saber, la Teoría de la Modernización (TM) y la Nueva Economía Institucional (NEI). Estas dos teorías son conocidas, pero no las vemos juntas en la literatura, y creemos que juntas mejoran la capacidad explicativa de las teorías tomadas individualmente.

A partir de este marco, proponemos un cambio del eje tradicional dictadura-democracia al eje que va desde órdenes de acceso limitado a órdenes de acceso abierto.

Ambas teorías enfatizan la importancia del sistema de valores (o el sistema de creencias, como se expresa en NEI) como un elemento crítico para comprender el proceso de cambio institucional. Hasta ahora, presentamos los conceptos de relaciones de autoridad vs relaciones de intercambio (o relaciones de negociación, como se expresa en TM) y cómo se relacionan con el cambio de intercambio personal a intercambio impersonal. Creemos que hay un cambio subyacente en estas relaciones que está haciendo que las instituciones democráticas sean más resilientes. Además, al centrarnos en este conjunto de relaciones, pretendemos superar la excesiva relevancia que la literatura otorga a instituciones extractivas vs inclusivas. Creemos que las instituciones de origen colonial han sido extractivas en todos los casos, pero las relaciones detrás de ellas han sido diferentes dependiendo de la región.

Sin embargo, esta disertación enfrenta dificultades, ya que el tema que estamos tratando está muy en boga y sujeto a perturbaciones que nos desvían de la tendencia subyacente. Solo hace falta leer los medios para darse cuenta de lo que estamos hablando. En el curso de nuestra escritura, intentaremos separarnos de los eventos más inmediatos y centrarnos en la tendencia subyacente que se origina desde la década de 1990, para obtener relaciones causales.

# I. INTRODUCTION

On August 12th, 1982, an official delegation from Mexico, led by the minister of finance, Jesús Silva Herzog, was travelling to Washington D.C. to meet with the Federal Reserve chairman, the US Treasury Secretary, and the International Monetary Fund general manager to negotiate a restructuring of the debt that was weighing down Mexican finances. Mr Silva Herzog told Don Regan, then US Treasury Secretary, that they only had money for four more days[1]. In fact, Mexico's foreign reserves resisted for another month, and the default was announced on September 11th, 1982. This date is generally considered as the spark for the biggest debt crisis so far, with many countries defaulting on their debts with foreign creditors. For Latin America, in particular, the time would come to call this period the lost decade.

Of course, the concatenation of events had many nuances. According to Paul Volcker, then chairman of the Federal Reserve, Mr Silva Herzog and himself, had been meeting for months, usually on Fridays for lunch at the FED headquarters in Washington D.C., surveying Mexican finances (Volcker, 2015), and they had developed mutual confidence. They were on opposite sides, but they shared a common interest of weathering a financial crisis, which had been brewing ever since, notably Mr. Volcker, decided to drastically raise interest rates in the United States in 1979. Mexico had been borrowing US dollars at a variable rate during the previous decade. Certainly, that appetite for borrowing (and for lending) was not the Federal Reserve's fault (see chapter III below), but the increase effected by the FED were bad news. Serving the debt became much more expensive. Financial markets gradually lost confidence in the Mexican economy, capital outflows were higher than inflows, and hence foreign reserves were draining down.

Mr Silva Herzog took office in March 1982, under the presidency of José López Portillo, but only a few months before Mexican general elections in July. They were won by Miguel de la Madrid. Politics were dominated by the PRI, the

1 See Los Angeles Times, Nov 11 2022 https://www.latimes.com/espanol/opinion/articulo/2022-11-29/el-que-y-porque-desde-washington-lo-que-lleva-biden-en-el-portafolio-a-mexico

Revolutionary Institutional Party, and there was not too much room for surprises, but De la Madrid, who was much more favourable to a good understanding with the creditors, would not take office until December 1st. In the meantime, tension was mounting, and president López-Portillo announced the nationalization of Mexico's banks beginning of September that year, at the time of the annual conference of the IMF and the World Bank in Toronto. Things got so tough, that the credit cards of the members of the delegation were rejected, just for being issued by a Mexican bank (Arriola, 2015; p. 24).

Mr Silva Herzog was about to resign, and Paul Volcker convinced him to go ahead and wait for Mr Miguel de la Madrid to take office and envisage the necessary reforms. Trust is a critical factor when we are dealing with debts and loans (see chapter IV below), and Mr Volcker needed somebody who he could trust on the other side of the table, to tackle a debt that mounted to around US$81billons (US$1146 per capita). President Miguel de la Madrid consequently confirmed Silva Herzog as minister of finance, and he would hold office until June 1986, leading the negotiations with the US and the multilateral lenders.

Argentina had experienced the same issues a bit earlier that same year, with delegations travelling back and forth between Washington DC and Buenos Aires to assess the situation: a debt ascending to US$40 billion (US$1383 per capita). The country was governed at that time by a military junta, and its political instability after the defeat in the Falklands War against Britain did not help at all – note that three different ministers of finance had held office during 1982 –, but finally, it was Jorge Wehbe who announced a default on Argentina's debt, around the same dates as Mexico. In this case the negotiations with the multilateral organizations were undertaken once a democratic regime was restored in 1983, under the presidency of Raúl Alfonsín, and led by the minister of finance, Bernardo Grinspun, who, contrary to Mexico, adopted a combative stance toward the IMF. Negotiations were so tense that eventually Mr Grinspun famously replied to the IMF's envoy, "if this is what you want, I will drop down my pants"[2]. To cool

2 Author's translation, "si quiere, me bajo los pantalones" was the reply of Mr Grinspun to the Spanish IMF envoy, Mr Joaquín Ferrán. See Diario Clarín Dec 17, 2021 https://www.proquest.com/docview/2611254688/38C2FFB83E4A61PQ/7?accountid=14514

things down, Silva Herzog acted as a successful mediator between the IMF and Argentina, and the distinguished Argentinian economist, Raúl Prebisch, was implied in the negotiations as a special envoy from president Raúl Alfonsín (Boughton, 2001; p. 389).

The debt crisis spread rapidly to the rest of the countries in the region, and also to Asia. With few exceptions, most countries in the region needed to ask for harsh bailouts, accorded by the multilateral organizations under pressure from advanced economies, who did not want their financial system to collapse (Marichal, 2010; p.214).

It is important to notice that the defaults that the Latin American countries were announcing did not refer only to sovereign debt, but to all debt in foreign currency (basically US dollars). The problem was not (or was not only) that governments were running out of funds, but the problem was that countries did not possess any more foreign reserves. They had no US dollars available, and therefore all paybacks, both from the government and from private borrowers, were curtailed. Similarly, on the lenders' end, there were private commercial banks as well as public entities, as the IMF itself.

Negotiations in those months (and in fact for several years to come) consisted of extending loans and payment drawbacks, on the condition of reforms that the affected countries should implement. There was a sense of victimization of Latin American countries. They were considered pariahs who had no other choice but to abide by the conditions that *Washington*[3] was imposing, even though the proposals that *Washington* put on the table were not definite fixings, but just patches, that along the decade evolved to a more permanent framework that would later be known as the Washington Consensus.

An analysis published in The New York Times those days stressed the point of the conditionality, nothing new for the IMF, and the possibility of social unrest after austerity measures were implemented in the indebted countries, but it also

3 We refer to Washington as a generic for the multilateral organizations, notably the IMF and the World Bank, that are headquartered in Washington DC

stressed the point that officials at the International Monetary Fund were overwhelmed by the situation[4]. El País, of Madrid, echoed the scene in Mexico[5], noticing that the country was coming out of the traditional conformism with the political elites. In this confusion, patches here and there were the basic proposals to go on. In fact, the fixing will not come until President Ronald Reagan left the White House, and a new Treasury Secretary, Nicholas Brady, was named under George Bush's Administration (see chapter III below).

Twenty-six years after those events, on September 15th, 2008, a centenary bank of the US, Lehman Brothers, collapsed, sparking the worst financial crisis and global recession since the great depression of 1929. In between, other crises occurred, and whether they were originated in Latin America (like the *Tequila* crisis of 1994 or the *Corralito* in 2000) or elsewhere (like the Asian crisis of 1997, or the Russian crisis of the following year), they all had severe effects in the region of our interest.

Needless to explain here how serious this crisis was (see chapter IV for details), however, this time, Latin American leaders were very confident. In an interview published in October 2008, President of Brazil, Luis Inazio Lula da Silva, assured that the crisis was a tsunami for the USA, but for Brazil, it would not be more than a ripple useless for surfers, and he announced that he was going to call President George W. Bush to express "*his solidarity with the USA*" [6]. Certainly remarkable.

Furthermore, this time, the visits to Washington DC, were not at the request of the Southern countries, but at the demand of the advanced economies, as part of a G20 summit. The first one to gather the leaders of these group of countries, that so far, since its foundation in 1999 were restricted to the finance ministers and central bank governors[7]. Let us notice that the G20 includes developed and emerging economies, it accounts for around 80% of World gross product, and

4 See New York Times Sep 11th 1982 https://www.nytimes.com/1982/09/11/business/imf-focus-a-determination-by-debtors-to-cure-their-ills-news-analysis.html
5 See El País Sep 1st 1982 https://elpais.com/diario/1982/09/01/internacional/399679211_850215.html

6 See O Globo Oct 4th 2008 https://oglobo.globo.com/economia/lula-crise-tsunami-nos-eua-se-chegar-ao-brasil-sera-marolinha-3827410
7 For details, visit the official web page https://www.g20.org/en/

around 65% of the World population. The three main economies of Latin America, namely Brazil, Mexico, and Argentina, are members of this group, and were present at the summit.

That first summit was held in Washington DC, on Nov 15th, 2008, with the purpose of laying the foundations for a reform of the financial system, following the events after Lehman Brothers collapse. They were the final days of the presidency of George W. Bush, and the incoming President, Barack Obama, would oversee the implementation of the reforms. We know that the USA and Europe had different views on the matter, especially when it refers to the role of fiscal policy, but this is not the subject of this dissertation.

Argentina, Brazil, and Mexico, all present in the summit, as we have said, acknowledged a shift in global politics, after the summit, and again President Lula of Brazil, acting as the informal speaker of the region, reckoned that he would have never imagined such a role for emerging countries in restructuring the global economy[8].

A few months later, in August 2009, Argentina announced the repayment of US$2.25 billion of government bonds, without the help from any multilateral organization, and with no impact on the country's reserves that amounted to US$46 billion[9]. And the following year, Fitch, the rating agency, raised the rating to B[10], signalling a comeback to the financial markets. This for Argentina was something unimaginable in the context of an international financial crisis like the one that was being experienced.

Mexico, because of its commercial links with the US, had its economy more disrupted than other countries in the region. Workers were being laid off in industrial plants all along the country and fears of a deep recession loomed like dark clouds before the storm. Nothing like that eventually happened. A loan from

8 See BBC News Nov 16th, 2008 http://news.bbc.co.uk/2/hi/business/7731881.stm
9 See Financial Times Aug 3rd 2009 https://www.ft.com/content/4f348dd4-804b-11de-bf04-00144feabdc0
10 See Financial Times July 12th 2010 https://www.ft.com/content/5d37e063-5ebb-3b53-b424-ad8a2d1a9c14

the IMF was arranged for Mexico in April 2009, but, oh surprise, no conditionality whatsoever[11].

The disparity of these examples is palpable. While in 1982 the leaders of Latin American countries were as much in shock as their countries, and they were begging for bridge loans in their visits to Washington DC, in 2008, they claimed to be the key players in the reforms that should be implemented in the global financial system, and the puzzled ones were the officials of the multilateral organizations. The respected governor of the Central Bank of Perú, Julio Velarde, recalls the situation like this, in an interview in 2019

> "*I remember in October of 2008 going to the IMF; everybody looked like zombies […] I have never seen a situation when finance ministers and central bankers were like the walking dead, it was surprising. We didn't need any money from the fund, but I thought we might have to ask; nobody knew what was going to happen. You knew what happened in the 1930s, and you didn't know if it was going to be like that again*"[12]

Still in 2011, the safe haven for cash was Latin America, according to a report in the Financial Times, where the author expressed the market confidence in Latin America management of the region's economies[13].

And hence, facing this contrasting evidence, the question is obvious: what are the reasons behind these so different performances? Was it only, as the media put it, that China's demand for commodities was so strong that commodity prices were in the high ranges and money kept flowing in? Or was there something else? And is this something else related to a better institutional framework, or just good luck?

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11 See The Economist May 2nd 2009 https://www.proquest.com/docview/223986233/4C52C63585964C1DPQ/2?accountid=14514

12 See Euromoney March 6th 2019 https://www.euromoney.com/article/b1dd4cf9mv160j/latin-america-an-end-to-boom-and-bust

13 See Financial Times Nov 16th 2011 https://www.ft.com/content/c616b97e-bad4-3f83-a69f-fb8de6b4cdb3

We can reformulate these questions as follows: in an environment of global financial crisis such as the one that began in 2008, what are the deep causes that have allowed Latin America not to suffer from this crisis as on other episodes?

The purpose of this dissertation is to try to provide answers to this question within the temporal frame of the crises since the 1980s and focusing on the events around the global financial crisis of 2008. We will limit our research in any case until 2019, to avoid the disruptions caused by the COVID-19 pandemic, although we reckon that it could be interesting to study the reaction of the Latin American region in front of the pandemic, considering the special nature of this last crisis.

We acknowledge that countries in the region are very different, and, while we will try to set some common grounds, we will focus specifically on Mexico and Argentina, for the reasons that we will explain in section 'The methodological design' below. It is fair to say that the debt crisis of the 1980s arose a certain ambition of unity in front of an economic crisis. Just look at the fact that Mr Silva-Herzog interceded in favour of Argentina during the crisis, as a remarkable example. We believe that the IMF would have appreciated more unity in the region to facilitate negotiations.

It is important to state that this dissertation cannot be seen as any recommendation in terms of policies to be implemented, but just to compare economic policies and institutional frameworks and how they evolved in the quarter of a century that elapsed between 1982 and 2008, and the extended effects until 2019.

## 1.1 The hypothesis

We defend that apart from the conjunctural effects derived from the relative high prices of commodities around 2008, the region is in a process of structural/institutional change that is contributing to a better response to crises, and particularly to economic crises.

This process of change is gradual and had an enormous impulse in the 1990s, after the so-called lost decade, and it is coincidental with

- At the Economic level: Integration in the world economy and prudent macroeconomic policies that were implemented from the 1990s.
- At the Political level: the generalization of democratic governments in the region, and the alternation of left-wing and right-wing governments completing the legislatures. This has resulted, despite setbacks and flaws, in an improvement in governance and an improved access of individuals to political and economic resources. Note here that we will propose an alternative terminology to the traditional dictatorship-democracy axis, to be developed in the dissertation, the axis limited access orders-open access orders.
- At the Socio-cultural level: a shift from traditional values to rational secular values, and in some cases to identity values. These are values that undermine authority.

It is important to stress that the process has been occurring at all levels simultaneously, and that this simultaneity is critical for the positive effects to take place, and that the process at one particular level reinforces (or weakens) changes at the other two levels.

In the theoretical framework below, we will set the definitions for the elements contained in the hypothesis, particularly for the definition of structural change and the alternative for democracy vs dictatorship, which we will refer as open access orders vs limited access orders, following the postulates of new institutional economics.

We finally want to stress that by no means we are saying that Latin America will be exempt from crises, but that countries in the region have managed to build an institutional framework that allows for a better response to them.

## 1.2 The methodological design

Our research is going to be undertaken through a historical comparative methodology that will take into account the policies and other institutions in the different crisis episodes since the 1980s, with special emphasis in the crisis of 1980 and, of course in the 2008 great financial crisis. We will support our research in data obtained from reliable sources, as the Economic Commission for Latin America and the Caribbean, the International Monetary Fund or the World Bank.

But before we proceed with the proper study, we will make a brief review of Latin American economic history, with special emphasis on those institutions that pervade the history of the region, in order to understand the historical context of the current events. We will see that history evolves, and that geography and other endowments are essential in setting the current conditions of the region. We will put a focus on how authority relations (as opposed to bargaining relations) have pervaded along the economic history of Latin American countries since independence.

We are not pretending to study all countries in Latin America, because that would be a daunting task, given the length of this dissertation, and therefore, we have chosen to compare Mexico and Argentina, setting a pattern that could be used for other countries.

It is not just a whim, that we have chosen these two countries. To begin with, as we saw at the beginning of this introduction, they were at the centre of the debt crisis in 1982, and they were also key players in the great financial crisis of 2008, both being members of the G20. But let us briefly outline some other reasons:

Both Argentina and Mexico are referential economies in the region, the second and the third economies in terms of GDP, and not too far in GDP per capita. Both of them considered upper middle-income countries

Gross Domestic Product at constant market prices 2019
(USD at constant 2010 prices)

| | Total | Per capita |
|---|---|---|
| Argentina | 440.769,2 | 9.842,8 |
| Mexico | 1.309.880,9 | 10.267,5 |

*Source : CEPAL /ECLAC Statiscal Year Book, 2020*

But with some interesting differences and also some commonalities.

The economic structure is certainly different. Argentina is very much biased by the importance of large-scale agriculture, as a global provider of soybeans and other agricultural produce, whereas Mexico is biased by its proximity to the USA

and its membership in North America Free Trade Agreement (NAFTA), now called United States-Mexico-Canada Agreement (USMCA). In this work, we will refer to this agreement by its old name NAFTA, for simplicity (more details about the economic structure in chapter IV).

Nevertheless, in both countries, tax revenues depend very much on commodity exports. Even though oil exports are not so important in Mexico, a large part of the fiscal revenues come from oil exports, through non-tax revenues from PEMEX, and in the case of Argentina, export taxes on primary products represent a large source of revenue for the government

From the political point of view, both countries have a tradition of strong and long-life political parties, even if in Mexico, the current party in government, MORENA, is of recent creation, it is in fact a split from former PRD, which was itself a split from PRI. The main opposition party in Mexico, PAN, is also an old actor in the country. All parties have presence in the institutions at different government levels, and they govern states and municipalities. Argentina is dominated by Partido Justicialista, founded in 1947, and the Unión Cívica Radical, that took part in the coalition “Juntos por el Cambio” of President Mauricio Macri in 2015.

Similarly, trade unions and important actors in both countries, although in Mexico the unions tend to be organised by sectors, and in Argentina tend to be more class unions, they all have closed links with the political parties that have shaped politics in the twentieth century.

Both Argentina and Mexico are constitutionally federal states, with provincial or state executives and legislatures, which makes the levels and functions of government similar in both cases.

For the study, itself, we have considered a set of dependent variables that are of economic nature, and a set of independent variables that match with the three levels underscored above, namely the political, the economic and the socio-cultural. The dependent variables are

- GDP per capita. The evolution of this variable is a first approach to measure whether a country is growing and therefore generating mor wealth for its population
- Inflation. This index is important because a high inflation curtails growth and the creation of wealth.
- The risk premium. This variable is important because it is a sign of the confidence of the rest of the world on a particular country. It allows a country to access the international financial markets, and hence the capability to finance resources for growth
- Capital inflows and outflows. This is a crucial indicator in a region where wealthy people tend to have their savings in foreign currency, because they do not trust their country. We will mention here foreign direct investment.
- Inequality, considering the Gini index. This indicator is important, because the generation of wealth without a proper distribution is a bad signal. Again, a crucial indicator in a region that has traditionally been considered as the most unequal in the world.

It is worth mentioning another indicator of recent creation, but that we are not going to use in this work, although we believe that it certainly is a good complement for the ones described above. We are referring to the Augmented Human Development Index (AHDI) created by Professor Prados de la Escosura in a recently published work, as an attempt to complement the traditional Human Development Index, of the United Nations Development Programme (Prados de la Escosura, 2022). AHDI index ads to the conventional HDI a new dimension: political and civil rights, in order to incorporate freedom of choice, and it also applies a non-linear transformation of its health and educational variables. We find the addition of the dimension for freedom of choice particularly interesting, considering the alternative axis that we propose that ranges from limited access orders to open access orders.

Unfortunately, this index has come too late in our research, and we do not dare to include it in our work, although we encourage other researchers to do it.

Once we have set the dependent variables, let us go to the independent variables, which are set according to the different levels described above

At the economic level

We have chosen two variables of economic nature

- The terms of trade is a variable that sets how much a country can import in exchange for a certain quantity of its exports. We will provide a proper definition in chapter 4 but let us say that this variable is important because according to simple analyses undertaken, the positive stand of the terms of trade for Latin American countries is the reason why the behaviour of the region has been so good during the great financial crisis of 2008. We will see, that even if this is true, it is not the only reason, and that if it had been only for this variable, the outcome of the crisis for the countries in the region would have been very different.
- The budget balance, as a critical element of a prudent economic policy, which is related to the tax system, and have effects on many other economic variables: the exchange rate, the inflation, the interest rates. It is so important that it may derail a consolidated advanced economy, as we explain in chapter IV below. We will study this indicator under the light of the tax system, which is one of the unfinished issues of the region.

At the political level

Under the light of our alternative limited access orders – open access orders axis, we intend to study political variables, that are helping to perfectionate access to resources for individuals in the region.

- Social spending. In fact, this is variable may be considered as bridging between economic and political variables. Social spending is the main chapter for spending in advanced economies, and it is also the case for Latin America. It is the fundamental pillar of the welfare state, and it is intimately link to the tax system and the budget balance. The

- Alternance in government. The normalisation of democratic procedures and the opening of the background of political representatives is a critical feature in the evolution of democracy, the weakening of the patrimonial state and the implementation of politics that help the improvement of the welfare state. Although we must say, that more often than what is desirable, political representatives adopt *the vices* of the traditional political elites
- Policies that have reinforced the institutional framework for prudent macroeconomic policies, like independent central banks or independent budget offices. These are all political decisions that have gone in favour of reinforcing the institutional framework.

At the socio-cultural level

The last independent variable has to do specifically with the second supporting pillar for our theoretical framework, the modernization theory (see next section below for details).

- Emancipative values Index. This indicator is a creation of professor Christian Welzel, who has followed the works of Professor Ronald Inglehart, within the framework of the theory of modernization. They have even written a book together (Inglehart & Welzel, 2005). This index was created to reflect the evolution of what was earlier called secular values, and it is a measure of the internalization of authority in the individuals. We will complement this indicator with others. For this part of the study, we will use the World Values Survey

An Appendix to assess open access orders

As we mentioned earlier, we are going to use an axis that differs from the traditional democracy-dictatorship extremes, and we are going to use the axis that goes from open access orders to limited access orders, but we must acknowledge that by no means this is anything new in the literature, although it

is not very common since the concepts were developed in the seminal work by Professors North, Wallis and Weingast (North et al., 2009).

For the purpose of measuring open access orders, we have included an appendix that recollects the latest advances to offer a quantitative assessment of open access orders in the form of an index. We must warn that the results are arguable, but it is a laudable work of constructing an index, that opens the path for further research.

## 1.3 The objectives of the research

We must differentiate between a general objective and some specific objectives of the dissertation.

The general objective of this work is to set up a framework that helps us to analyse the process of institutional change in Latin America since Independence, relying on the combination of the theory of New Institutional Economics, as developed by Douglass C. North, with the theory of Modernization, after the postulates proposed by professor Ronald Inglehart and more recently by professor Christian Welzel, and focusing on institutions that have persisted in the region such as, in the first place authority relations versus bargaining relations, which favour personal exchange versus impersonal exchange and its corresponding political equivalent vector of personal power vs impersonal power.

The specific objectives would envisage answering the question posed in the title of the dissertation, although emphasizing institutional change and moving away from the traditional dictatorship-democracy framework, which is replaced by that of limited access orders-open access orders. Within the framework of the process of institutional change in Latin American countries, identify the elements contributing to this change that help to explain the good performance of the region in the face of the Great financial crisis originated in 2008. Analysing these elements and establishing the differences with previous crises. Analysing this from the sociological point of view, with the help of modernization theory, and how in particular, the evolution of cultural values related to authority, have

significantly influenced institutional change, although nevertheless, from the economic point of view some imbalances persist that are slowing down the positive evolution of parameters such as inequality. There is a divergence between the sociological and economic components of institutional change

The process of structural change in Argentina and Mexico will be analysed in depth, with the aim of determining similarities and differences between these two countries and setting up a pattern for the comparison of other countries.

## 1.4 The contribution of this dissertation

The great financial crisis of 2008 is a very relevant event that has called the attention of innumerable analysts and has produced a large literature around its causes and effects.

If we refer to Latin America, this crisis has been the first one not to badly hit the region since the beginning of the twentieth century. Despite this striking evidence, analysts do not have put much focus on this particular fact, and generally they dispatch it by invoking the benign terms of trade, due to the high prices of commodities driven by the demand from China. We believe that there is more than a simple extra flow of income from China to explain the behaviour of the region during this crisis.

A first contribution of this dissertation is that we approach our research from a novel theoretical framework that combines elements from sociology and from economics, namely Modernization Theory (MT) and New Institutional Economics (NIE). These two theories are well-known, but we do not see them together in literature, and we believe that together they improve the explanatory capacity of the theories taken individually.

Further to this, and as a consequence of this theoretical combination, a second contribution of our dissertation is that we propose a shift from the traditional axis dictatorship-democracy to the axis that goes from limited access orders to open access orders, because democracy is a term that has become elusive and too broad, and therefore not so useful when analysing the institutional framework of

countries in the region. This shift that we propose does not mean that we will fall in denial of democracy as a concept. It would obviously be very unwise to do so. We are just trying to shift the opposition between democracy and authoritarian regimes to the opposition between open access and limited access orders. We believe that this latest axis is more suitable to assess institutional change, as we will see below.

A third contribution of this work stems from the fact that both theories stress the importance of the value system (or the system of beliefs as it is expressed in NIE) as a critical element to understand the process of institutional change. Hitherto, we bring up the concepts of authority relations vs exchange relations (or bargaining relations as it is expressed in MT) and how they relate to the shift from personal to impersonal exchange.

Finally, we can highlight an empirical contribution through a detailed data analysis of a large set of variables and parameters that in a systematic way combine political and economic variables, as well as an analysis of the World Values Survey, all exhibited in chapter V of this work.

We believe that the phenomenon of patrimonial state, common in France and Spain and also in Latin America has a tremendous importance, and we focus on the prevalence of authority relations vs bargaining relations as a critical explanatory factor for the slow institutional development in the region. Moreover, by focusing on this set of relations, we intend to overcome the excessive relevance that literature gives to extractive vs exclusive institutions.

However, this dissertation confronts hardship, for the topic that we are dealing with is very trending and subject to disturbances that deviate us from the underlying trend. You only need to read the media to realise what we are talking about. In the course of our writing, we will try to detach from the most immediate events and focus on the underlying trend that originates from the 1990s, to obtain causal relations.

Notwithstanding, it is worth offering a glimpse of where we are now in the region, not by looking at the headlines of the press, but by analysing two recent reports, both published in July 2023, that provide consistent data, the most recent Latinobarómetro, (Latinobarómetro, 2023) and ECLAC'S report on foreign direct investment (CEPAL / ECLAC, 2023).

The Latinobarómetro is the most widely used annual public opinion survey for the region. The report has been running from 1995 and there is a question about the preferred regime by the population. The alternatives are democratic or authoritarian (we must abide by this axis for the matter). The latest results show the lowest support for democracy (48% of the population), only previously seen in 2018. What is interesting, however, is that the support to an authoritarian regime in the region has remained stable in the surroundings of 17% all along the series, and the increase is with the population that considers that the regime is indifferent, showing that they have other issues that matter more than the regime. The report highlights that at moments of crisis or bad economic conditions, the population care less about the political regime. It is also interesting to highlight that even if indifference is on the rise, a large majority of the population (61%) does not support a military government (Latinobarómetro, 2023; p. 43), and when the sample is asked about democracy as theoretically the best regime[14], the positive answers are at 66% of the population.

It is also very interesting to highlight that the democratic regime has been functioning properly, with no regime change since 1985. The interruptions in the presidential mandates have been resolved within the democratic framework, contrary to what happened prior to 1985 (Latinobarómetro, 2023; p. 7). This is extremely important for our thesis, because it shows a basic strength of the institutional framework. Furthermore, we can complement this basic strength with the fact that alternation in power has been a common feature in the last wave of general elections, since 2018 (see table 3 of the report). However, corruption remains a serious problem, with 22 presidents in 8 countries that have been

14 The survey asks for agree-not agree with the statement "democracy may have problems, but it is the best system of government" (Latinobarómetro, 2023; p. 34).

accused and taken to court on charges of corruption (Latinobarómetro, 2023; p.8).

In our countries of interest, we must emphasize that Mexico has increased the support to an authoritarian regime by 11 points since 2020, so that the population is roughly divided by one third who support democracy, one third indifferent and one third who support an authoritarian regime. The report does not say, but the power of drug cartels and the insecurity that they are generating are certainly a cause behind this shift, and President Andrés Manuel López Obrador is favouring dramatically the influence of the armed forces in the country[15], generating a sort of reassurance in authority. Interestingly, when Mexicans are asked about democracy as the best system of government, 71% (above the average in Latin America) answer positively. These apparent discrepancies in the answers about democracy make us reflect about the possibility of changing the axis for open access orders to limited access orders as a category that may be more practical for the matter. The country has experienced alternation in power in the election of 2018 and no ex-president has been charged on corruption.

Argentina, on its side, is one of the few countries where support of democracy has increased by 5 points, and it is currently at 66%, although the support for an authoritarian regime has also increased, but it remains around the average of the region at 18%. When asked about democracy as the best system of government, the answers are overwhelmingly positive at 80%. As for corruption, ex-President Cristina Fernández de Kirchner has been accused on charges of corruption, but no legal conviction so far.

On the purely economic side, ECLAC's report on foreign direct investment (FDI) shows an astonishing strength for investment in the region in 2022, with a record high of US$ 224.579 billion FDI inflows, up 55.2% compared to 2021. This is 4% of the regional GDP.

15 The current term is already (the term is set to finish in 2024) the deadliest in the history of Mexico, with more than 155.000 murders and 43.000 disappearances so far. See Financial Times Aug 2nd 2023

As we will see in chapter IV below, FDI plays a critical role in fostering economic integration, technology transfer and overall economic development in both the recipient and the source of the investment. Moreover, the report highlights a growth in cross-border mergers and acquisitions by 7%, and announcements of investments, which should be reflected as real investments in 2023, are also at very high levels.

All FDI components grew in 2022 (CEPAL / ECLAC, 2023; p.11-12)

- Reinvested earnings became the main component, accounting for 43% of the total. A growth of 50% compared to 2021.
- Equity became this time second, accounting for 36% of the total. In this case an increase of 22% relative to 2021.
- Intercompany loans accounted for 21% of all FDI inflows in the region but experienced the largest growth: 283%.

As for sectors, where data are available, the analysis shows that services accounted for the largest share at 54% of FDI inflows, followed by a continued interest in manufacturing, that accounted for 30% of the total inflows, and finally natural resources that reached 17%. Brazil and Mexico were the main recipients of funds.

Interestingly, FDI outflows in 2022 also marked a record high of US$ 74.677 billion, up 80% compared to 2021, with Brazil and Mexico, again, as the main sources of outward investments.

These figures become even more relevant, in a context where global FDI declined by 12% in 2022, compared to 2021. High inflation, the war in Ukraine and a major divestment in Luxembourg help explain this reduction, but even if we exclude Luxembourg, the global increase of FDI is at 11% compared to 55% increase for the Latin American region (CEPAL / ECLAC, 2023; p. 21).

If we focus on our countries of interest, Mexico (CEPAL / ECLAC, 2023; p.56) has experienced an increase of 16.3% in FDI inflows totalling US$ 38.932 billion,

and the main components here were equity first (46%), but closely followed by reinvested earnings (42%), the rest (12%) were intercompany loans. Services were the main target for these inflows (56%), an increase of 47% while manufacturing inflows recorded an increase of just 9%. Natural resources suffered a decrease of 59%, but this is mostly due to the fact that this sector experienced a record high in 2021, because the investment in this sector is in line with the average of the past decade.

Argentina is not so efficient in providing FDI information (CEPAL / ECLAC, 2023; p.58), and we do not have the breakdown by sector, but the total inflows more than doubled (123.2%) in 2022, compared to 2021 totalling US$ 15.408 billion, and the main components were intercompany loans (57%) followed by reinvested earnings (37%), the resting 5% were equity investments. As we said, we do not have a breakdown by sector, but let us highlight one significant operation, as it was the purchase by SoFI (a US bank specialized in technological investments) of the Argentine technofinance company Technisys, S.A., a provider of cloud-based banking platforms, for a total of US$ 1,1 billion.

This quick glimpse at the two reports shows a mix panorama of the region, Democracies are rather weak, and they do not inspire enough confidence among the populations of the different countries, but alternation in power is a common feature in practically all countries, a sign of good health and trust in the institutions themselves, and the record levels of foreign direct investment show confidence in their economies, and also sufficient political stability. It looks as if the floor level of the institutional and economic parameters is higher and more resilient than it used to be, levelling up what professor Przeworski once stated limiting his research at GDP per capita: “No democracy ever fell in a country with a per capita income higher than that of Argentina in 1976” (Przeworski, 2005).

Let us go back to the beginning of this introduction, where we were praising the efforts of Mr Silva Herzog at the time of the big debt crisis in Mexico. His legacy is somehow reflected in his son, Jesús Silva-Herzog Márquez, a political scientist and essayist, currently working at the Tec de Monterrey and Georgetown University in Washington DC. In a recent interview, he describes the current

situation of Mexico[16]. His point is that democracy in Mexico is a sort of waiting for Godot stand, that is never plenished, something that connects with our idea of transition to an open access order, which is never full, and he advocates for a stronger institutionalism that should be able to absorb the tensions of the country, and definitively break with the patrimonial oligarchic trends that have been so pervasive in the region.

16 See El País Oct 12th 2021 https://elpais.com/mexico/2021-10-12/jesus-silva-herzog-mexico-no-cabe-en-dos-cubetas-tendra-que-recuperarse-pronto-la-diversidad-politica.html

# II. THEORETICAL FRAMEWORK

In order to deal with the question object of the present work, it is necessary to provide a solid theoretical framework that allows us to provide coherence to the response, and to open the possibility of progress in future research.

Even though our question has a clear economic nature, we cannot expect to find a proper line of research only in the economic science. Certainly Economics, insofar as science that deals with decision-making has an undeniable role, but it is a combination of the social sciences (considering them as such in the Popperian sense of science) that have to work coordinated to give a lasting answer to the question we are asking (Swedberg, 1990; p.157). This is the way that the so many social scientists are following in order to provide the best answers to the numerous problems confronting us.

In this section of our work, we will try to set up a solid theoretical framework, that will allow us to move in the turbulent waters of sociological research, based on some of the most reputable theories from the social sciences. Specifically, we will work with the theory of the new institutional economics, as formulated by Professor Douglass C. North and others in the last quarter of the 20th century and the theory of modernization, according to Ronald Inglehart's and Christian Welzel's formulation.

Reality is complex. No matter how far our imagination can take us, it often overcomes fiction. It is as if the aggregate of the individual decisions of actors in the social game were not a continuation of those individual decisions. It is not only that there is no determinism, but it even seems that there are no patterns that repeat in a consistent manner as it were. In the words of sociologist Enrique Gil-Calvo, the metaphor is meteorology. The reality is presented to us in the form of "stormy or shutters spirals fed back by vicious or virtuous circles" (Gil-Calvo, 2008).

Nevertheless, the origins of economics and social sciences in general were biased by exactly the opposite view. From the times of Sir Isaac Newton, and until the birth of quantum mechanics and relativity, the aim of science was to look for a sort of mechanical determinism, and certainly, there may be processes that repeat, but that does not mean that the outcomes are predictable, because the many variables that intervene and the initial conditions for a particular phenomenon, may result in dramatic shifts in the final outcome.

This leads us to introduce the concept of ergodicity. We say that a dynamic system is ergodic in that there is a probability that the system states are recurrent, or more precisely, "averages calculated from past observations cannot be persistently different from the time average of future outcomes" (Ayala & Palacio-vera, 2014; p.9 ). In economics, this concept is not exempt from controversy, for the neoclassical model needs an ergodic world, but as Keynes put it, in some cases, further than probability, there is pure uncertainty, because between economic decision and economic outcomes there is (historical) time in between (Davidson, 1991; p.137), that purports many variables to affect the process. Historical time entails changes in the physical world, but also the human environment through human actions that will eventually emerge a novel environment, for which there is no historical experience to deal with (North, 2005; p. 20). Examples of these changes stem from technological innovations in very different manners, like the artificial intelligence revolution that we are now living or the introduction of the marine insurance in the seventeenth century that helped expand trade, to put two extreme examples. These changes trigger a process of creative destruction in the Schumpeterian sense and bring about alterations of institutions.

The concept of ergodicity, which is derived from the Newtonian physics, at a time in which science sought determinism in the outcomes, is critical for the rest of our work, since an ergodic world, would make irrelevant the human intervention and however, human beings are constantly acting to change our environment and these changes are such that social conditions are not stable, and therefore, the possible ergodicity of the system becomes unworkable.

Let us therefore convene that social systems are inherently non-ergodic, for there's room for the human beings to interact and intervene and let us also notice something that contrary to what we may think, neoclassical economic theory needs ergodicity for its model to work, which makes the theory not so valid, particularly in our complex world. Therefore, we must infer that we live in a non-ergodic world, especially in everything that concerns the study of human decisions and activities.

To understand the non-ergodicity of the world, let us consider a glass full of water on the edge of a table. If we apply a force on the table and we shake it, the glass will eventually fall on the floor and break out in multiple scatterings that would disperse randomly on the floor, and the water will disperse accordingly. Each time this happens, the distribution will be different, but always in a distance range that we can predict. Further than that, if we change the strength that we apply to shake the table (what we could call the initial conditions) the distance range would be different. Hence, to be more precise, we can say that we live in a *limited non-ergodic* world.

Moreover, in our limited non-ergodic world, we also find that the accumulated knowledge of mankind increases constantly, and as a consequence, our perceptions of the events are different at each time and for each individual, who in case they face uncertain situations will make decisions on the basis of that accumulated knowledge and their own system of beliefs and values, which according to the theory of modernization, which we'll discuss later, will have critical implications in relation to, for example, the type of government or the economic system.

At this point, it is important to state that, against the traditional endorsement of neoclassical economic theory, decisions are not solely taken on the basis of a rational utility function. It is not possible that human beings always maximize its utility ex-post, precisely because the environment is constantly changing, among other things due to human intervention, as we afore mentioned, and consequently, man takes into consideration other variables beyond the mere rational utility.

Let us convene, hence, that we live in a limited non-ergodic world. The world is dynamic, societies are also dynamic, but nothing should let us think that events are going to repeat, and that what "worked" in a society will "work" in another if transplanted. And we should be able to find a framework that allows us to understand what makes these dynamics possible and in particular, what makes possible economic change.

## 2.1 The new institutional economics

Douglass C. North received the Nobel prize in Economic Sciences, in 1993 "for having renewed research in economic history by applying economic theory and quantitative methods in order to explain economic and institutional change"[17]. In fact, he has done much more than that. Re-approaching Adam Smith, he challenged the neoclassical theory of economics, which has been the dominant framework for many decades, providing a degree of complexity to the functioning of the market, because after all, the neoclassical model does not direct any attention to the evolution of markets (Heiner, 1983; p. 573).

According to Professor North, in the work of Adam Smith, "The wealth of Nations", there are implicit four fundamental stumbling blocks that neoclassical economists have preferred to ignore, because they explicitly required institutional analysis (North, 2005; p.84).

1. The transfer from personal exchange to impersonal exchange. This evolution of the exchange is fundamental to fully develop the potential of nations, which Adam Smith saw as a function of market size. We can say that the more impersonal is exchange, the more it is based on objective characteristics of the goods and services, in which case, the market also works more efficiently as the most suitable mechanism for resource allocation and pricing.

   We will see later in this work, that there is a political equivalent to the economic component of impersonal exchange.

17 See official web site for Nobel prizes https://www.nobelprize.org/prizes/economic-sciences/1993/north/facts/. Last visit 14 August 2019.

2. The division and specialization of labour, which as it is stated by Professor North, it really is specialization of knowledge. The problem is that the integration of this dispersed knowledge with low transaction costs, is not resolved with pricing of the market and much less as they want to make us believe with globalization. Knowledge is what we call a non-tradable good or a non-tradable capability. Just think of the example of the taxi driver of Bombay, with a knowledge of equivalent, if not better, than a taxi driver in London and whose service hourly price has nothing to do with his fellow Londoner taxi driver[18].
3. The efficient functioning of market (production) factors and products is based on the fact that its structure provides incentives that allow players to compete within certain margins that will eventually induce productivity gains.
4. For this efficient functioning, the intervention of the state is required, but at the same time, there must be institutions that avoid that the state will become a predator of the market.

The new institutional economics focuses precisely on the incentives structure that humans build to develop this skill that we mentioned above (specialization of knowledge) and should provide us with a better understanding of the complicated interrelations that are involved in the social, political and economic world we have built. In addition, considering that this type of analysis focuses on the transaction (a type of relationship) as the basic unit, it provides a comparative analytics in time and space (Caballero Míguez, 2008; p.358).

But we have already brought about a few concepts that need to be defined in order to apply them properly to the theses defended in this work.

Firstly, we have the institutions, which in the words of Douglass C. North, they are the rules of the game, or more formally, are "those restrictions designed by man to limit political, economic and social interactions" (North, 1990; loc 107). They include both informal restrictions (customs, taboos, codes of conduct) as

18 Many examples like this can be found almost for any job and they show that globalization is precisely based on these interborder market flaws (Rodrik, 2012)

formal constraints (constitutions, laws, property rights) as well as the characteristics of applicability of the restrictions, which we call "enforcement". In practice, institutions reduce uncertainty in human relations, also reduce the transaction costs and ultimately structured incentives in exchange between individuals.

In political terms, we can say that institutions are collections of structures, rules and standards of operational procedures that have a partially autonomous role in political life (March & Olsen, 2005: 4). As these authors explain, there are formal structures (the formal rules), structures of meanings that result in identities and feelings of belonging, structures that provide common purposes and a sense of directions, and structures of resources that allow for human action.

At this point, secondly, it becomes necessary to distinguish between institutions and organisations: if institutions are the rules of the game, organizations are the players (North, 1990: loc 139). The organizations include political bodies (political parties, Congress) economic bodies (companies, trade unions), social bodies (churches, NGOs) and educational.

Two more definitions before moving forward: transaction costs and property rights. The first concept refers to the inevitable existence of costs in the terms of trade, which are derived, inter alia, of the asymmetry of information, the bounded rationality and opportunistic behaviour in relationships (O. Williamson, 1981). This concept is important since neoclassical economic theory forgets that they exist, and hence generating huge problems to the operation of the model.

The second concept is even more important, because it tends to be misunderstood, as if it were to refer only to the right to own private property, and this is not the case. "[…] property rights are rights of individuals of appropriating their own work as well as the goods and services that they possess" (North, 1990: loc. 715), i.e., it is a much broader concept than the mere right to the ownership of the factors of production and of course is a right of all individuals. In this sense, the appropriation is a function of standards and the ability of the system to ensure compliance with them ("enforcement").

Thus, we are already prepared to understand the institutional framework on which this theory is based: the construct that human beings build to organize the environment in which they live. We rely here on the development that makes our repeatedly cited Douglass C. North in his book "Understanding the Process of Economic Change" (North, 2005; pp.48-64): All organized activity requires a structure that defines the playing field. This structure is built by humans to order the economic and political environment in which we live, and this construction takes place in a specific cultural context.

The cultural context can be considered broadly as a scaffold that shapes human interactions to control the environment and has two pillars: physical capital, consisting of tools, techniques and instruments and human capital, which is equivalent to the “stock” of knowledge, which in turn is composed of beliefs (or belief systems) and institutions, as we have defined above, created as a reflection of those belief systems.

Thus, we finally have the institutional framework, which more specifically consists of:

- A political structure, which specifies the way in which we develop and aggregate political decisions
- A property rights structure that defines formal economic incentives
- A social structure (norms and conventions) that defines informal economic incentives

Now, to the extent that human beings permanently intervene in the environment, institutional change occurs in what we can call social advances or also setbacks, as Samuel Huntington warned in his famous article (Huntington, 1965: 393) and along a historical trajectory, of course undetermined in this limited non-ergodic world in which we live. How a society's past connects with the present and the future is the subject of what can be called "path dependence". By this we do not mean that there is an irremediable inertia in the institutional change, but that there are restrictions in the set of choice possibilities that we have in the present, that derive precisely from the experiences of the past (North, 2005: 52) and the initial

conditions. It is like the scatterings of glass that we mentioned in the example above. There is a limited range for its dispersion.

As far as this work is concerned, we want to focus on a matter that is fundamental to our understanding, namely, that the lead role in institutional change does not always reside in the same elements of society. The political component of the institutional framework, which, as we have said, defines the way in which we develop and aggregate political decisions, also determines who has access to decision making. This has transcendental consequences in many dimensions, because it is precisely this component of the institutional framework that firstly manages the question of uncertainty, and experience shows us that democracy is the ideal system to function in these situations. As another great economist, Amartya Sen reminds us, the universalization of democracy in the twentieth century has been the most relevant event of the century since, among other beneficial effects, wherever it has been implemented as a political order, it has made famine disappear (Sen, 1999).

We are not going to discuss in this work about what democracy is or what it is not. The literature in this regard is very abundant and the variations, depending on the perspective we adopt, are innumerable. In what interests us for our central thesis, let us highlight the procedural aspect and let us agree that it is the "The institutional arrangement for arriving at political decisions in which individuals acquire the power by means of competitive struggle for people's vote" (Schumpeter, 1984: p. 343). It is not a definition chosen at random. Note that Schumpeter defines it as an institutional system, that is, years earlier than the framework developed by Douglass North, Schumpeter already pointed out the political component of the institutional framework that we have endowed. Moreover, this definition enhances the *demos* aspect of democracy, that is to say, an intrinsic definition of democracy vis-à-vis other instrumental definitions (more about this in chapter V, when we will review a recent work by professors Lu and Chu), and it correlates very well with the axis limited access orders-open access orders, that we propose to replace dictatorship-democracy.

Let us also highlight an aspect of democracy that is interesting in the institutional framework in which we are endowing: the depersonalization of power. If we remember, one of the pitfalls implied in "The Wealth of Nations" was the depersonalization of exchange, and particularly of trade. Here we have the political equivalent of that depersonalization: In an efficient democracy, and for that matter an open access order, authority is exerted with a high degree of depersonalization, notwithstanding that the political leadership is compatible with it. What is achieved in an efficient democracy is that decisions are made based on rather objective parameters, which do not exclusively benefit a particularly privileged group. Bargaining relationships prevail over authority relationships.

In the region object of our study, this remains one of the challenges of democracy. For example, it is still common in the region, that the rulers want to modify laws to ensure permanence in power beyond what was originally established, leading to anomalies in the functioning of democracies in those countries.

But not only that. They are countries in which authority relations as opposed to bargaining relations have had an outstanding weight, and power has family names for the political representatives that transcend their representative functions, to become vortexes of authority. Family names that in many cases (much more often than in other regions) are generally linked to patrimonial origins of those states (Foweraker, 2021) (Fukuyama, 2011).

## 2.2 Modernization theory

Let us analyse, then, what determines who has the capacity to decide in a society and, in short, what makes a democratic system survive.

The theory of modernization, whose origins come from the time of the Enlightenment when technological advances were providing humanity with greater control over their environment[19], was reformulated by Seymour M. Lipset in the first instance and more recently, among others, by Ronald Inglehart and

19 When ergodicity was in fashion, by the way.

Christian Welzel, who perfected it, contributing with a huge amount of data from surveys, as for instance the World Values Survey.

After World War II, democracy was far from being a universal value, and yet the unfortunate policies applied after the previous conflagration put the elites on alert to avoid a repetition of policies that could only have dire consequences.

The powers who were winning the war, gathered at Bretton Woods, and despite the tough discussions, especially between US and UK representatives, they managed to build a system that favoured the reconstruction of a devastated Europe, almost without distinction between winners and losers[20]. In these circumstances, countries that did not have a long democratic tradition, but did have a common substrate among them, consolidated their democracies. This caught the attention of sociologists and political scientists, among whom was Seymour M. Lipset.

In a famous article published in 1959, our sociologist defends, following Weber, that modern democracy can only occur under the conditions of capitalist industrialization (Lipset, 1959: 73). In other words, democracy is functional for capitalism (Paramio, 1995: 258).

It is curious that in 1959, the only two regions that could be compared in political cultural terms were on the one hand Europe, and the English-speaking countries (and we should remark, with white population) and on the other Latin America. Considering these geographical areas, Lipset elaborates a table where on the European side, Germany appears together with France, Spain and Portugal as unstable democracies, and on the Latin American side, we find Argentina, Brazil and Mexico under a similar category, although we have other countries considered to be stable dictatorships.

20 The truth is that Bretton Woods was a quarrel between Great Britain and the USA where the two representatives, namely John M. Keynes and Harry D. White, confronted their different views. The fight was won by the USA, and it was the final consolidation of American power. Also note that the Soviet Union attended the meeting, but did not ratify the agreements, and therefore they were not part of the multilateral organizations (IMF and IBRD-World Bank)

Following this comparison, Lipset analyses economic development indicators available at that time referring to aspects like wealth (per capita income, telephones per 1,000 persons, and others), industrialization, education and urbanization (Lipset, 1959: 76) and he observes that those indices are on average higher in countries with more stable democracies than in the rest of the countries. Additionally, he introduces the idea that as long as wealth and literacy indices grow up, lower classes increase their exposure to the values of the middle classes (Lipset, 1959: 83), which as we know since the time of Aristotle, are the basis of democratic substrate.

Still a point beyond establishing the social requisites of bourgeois-class capitalism and democracy, he introduces an idea widely accepted in our days, which links the stability of the democratic system to a second set of somehow more ethereal requisites than the previous ones: effectiveness and legitimacy, which stem again from Weberian sources: The effectiveness of the democratic system is marked by the existence of an efficient bureaucracy and decision-making system, while legitimacy is related to the system's ability to maintain the belief that political institutions are the most appropriate for society (Lipset, 1959: 86). Legitimacy is not necessarily associated with democracy, but the question is how, in the face of a crisis that jeopardizes the effectiveness of the system, such as that of the 1930s, a society with a low level of legitimacy also enters into a crisis of legitimacy that increases political instability and can lead to an authoritarian system (Lipset, 1959: 90), which occurred at that time in Germany, Spain or Austria (France was also almost there) and has typically occurred in Latin America throughout the twentieth century, since the inheritance received from Spain and Portugal in these societies did not allow for the development of traditional legitimacy. According to Lipset, these countries experienced in the 1990s a sort of negative legitimacy, that provided an inoculation against authoritarianism to avoid the vices of the dictatorial regimes suffered in the previous decades (Lipset, 1994; p. 8). Even though that was written at the time of the optimism brought about by the fall of the Soviet Union, the truth is that no country in the region has suffered a new military dictatorship.

However, although, our author does not establish a causal relationship between economic development (according to those four indicators mentioned above) and democracy, but rather establishes that these conditions of economic development must be present for a stable democratic system to be feasible, he has received severe criticism, especially from economists and sociologists who master data management (Przeworski & Limongi, 1997) (Acemoglu et al 2009), who, however, we must add that also completely forget the requirement of legitimacy, whose inclusion as a control variable would moderate the statistical findings of these critical authors.

In the first case, the authors call into question that economic development provide an endogenous explanation for the birth of democracy, although they recognize that until that moment, a democracy has never fallen (has been transformed into dictatorship) with a per capita income for under USD 6,055, which was Argentina's in 1975 (Przeworski & Limongi, 1997, p. 1). In the second case, even more extraordinary, the authors pretend with the data they use, to support Barrington Moore's “critical junctures” theory as an alternative to modernization theory, when the reality is that they are perfectly compatible. From our point of view, economic development needs to come first through the adoption of technological development, either imported or locally unfolded, and this would allow for emancipative values to pervade the society, which will favour the rise of democracy, and this can be accelerated or delayed under certain critical junctures.

In this context, contemplating the criticisms that were getting worse on the statistical side, other authors provided empirical data and some very interesting theoretical variants that in our view have reinforced the validity of the theory of modernization. For example, according to the authors (Inglehart & Welzel, 2005: loc 3674), in direct response to the criticism of Przerworski and Limongi, Carles Boix and Susan Stokes, demonstrated with data that economic development not only helps consolidate the democracy, but also to the emergence of it (Boix & Stokes, 2003).

Now, in our opinion, the theory of modernization has been clearly reinforced thanks to the contributions of Ronald Inglehart with his empirical studies on values in all regions of the world[21]. From his seminal work, "The Silent Revolution" (Inglehart, 1977), this author has been defending that socio-economic development along with technological advances are causing a change in the cultural values of humanity towards post-material values, giving way from the mass society to the society of individuals, consistently characterized by the prominence of non-material social demands, since basic needs are covered.

Let us make clear what the authors of this updated version of modernization mean by values, and what consequences the prevalence of certain values over others have in society: “values represent utilities that people desire – so much that their actions are targeted toward pursuing them” (Welzel, 2013: p 217). And as a consequence, they mark the actions that dominate in a society.

Values in a society are bound to change, and the sequence, according to these authors. is as follows: socio-economic development begins with technological innovations that improve labour productivity, which brings occupational specialization, thus increasing educational levels and income levels. This is how human interaction is diversified, moving the emphasis of relationships from authority to bargaining, which eventually brings cultural changes (Inglehart & Welzel, 2005: loc 552).

In industrial societies the dimension of change is given from religious-traditional values to secular-industrial values. In post-industrial societies, the change occurs in the dimension of survival values to non-material values.

A further reformulation of the theory, this time encompassed only by Christian Welzel considers emancipative values rather than non-material values as the right parameter to measure the change in post-industrial societies. This implies a shift in the motivational attitudes of individuals: It is the quest for emancipation that moves individuals, and this includes of course non-material values, but that is not enough, and here it is where emancipative values show up as the

21 For documents and historical series Visit web page http://www.worldvaluessurvey.org/wvs.jsp

necessary sequel of secular values. We will analyse emancipative values and how they can be operationalised in chapter V but let us just stress the point that emancipative values entail the internalization of authority, in the sense that we will explain below.

Emancipative values operate in a double orientation, the liberating (freedom of choice) and the egalitarian (equality of opportunities), and they are essential to let people pursue specific values of their choice. In that sense, they operate as a sort of meta-value (Welzel, 2013: 93), and they are embedded in the cultural aspects of society, which is conducive to slow changes, basically it takes at least one generation. By letting people pursue specific values of their choice, individuals are internalising authority. Of course, individuals follow trends and fashions, but those trends and fashions are not imposed as part of an authority relationship. At this point, as the authors mention, education, and we must remark, education in critical judgement, are essential in the adoption of emancipative values.

Let us also note that the improvement in material conditions and particularly technological progress, even if unequally around the world, allows for more action resources for human beings worldwide. We know from Abraham Maslow that as material conditions are better (more action resources), human behaviour evolves towards more transcendental motivations (Maslow, 1943). Modernization theory recollects these findings, and states that more action resources are fundamental at triggering value change, especially towards self-expression values (Inglehart & Welzel, 2005: loc 597), or more recently referred as emancipative values (Welzel, 2013).

Most interestingly, according to professor Welzel, emancipative values are a better predictor for the strength of democracy than the mere percentage of people who express support for democracy in surveys like Latinobarómetro and others (Welzel, 2021b)(Welzel, 2021a). Remember that values are drivers for action, and therefore, emancipative values generate an intrinsic drive to take actions that help to reinforce freedoms and democracy (Welzel, 2013; p. 516)

Consequently, secular values are necessary, but not sufficient to explain the transition from industrial economies to knowledge economies (Welzel, 2013; p. 171). According to Professor Welzel, knowledge economies came about when research was institutionalized, which, following historian Ferdinand Braudel, occurred when science became an independent social sector during Renaissance-Humanism (Welzel, 2013; p.119), and we should add, accelerated with the Enlightenment, when intellectual freedoms were enhanced by the slow process of providing access to economic resources and political decision making (ibid. p. 120).

Let us look at how this reformulated modernization theory fits in with the institutional framework we were talking about earlier, in which bargaining relationships dominate above authority, and even more, of depersonalized exchange in the measure in which societies advance in economic development.

In the above-mentioned collaborative work, professors Inglehart and Welzel focus on the effects of these movements on cultural values on the political system. These authors affirm that the emancipatory nature of non-material values, now called values of self-expression or autonomy, make democracy increasingly more likely to emerge, even claiming that at one point it will be difficult to prevent a democratic system from arising (Inglehart & Welzel, 2005: loc 245)

But in the context of the present work, the most important contribution of Inglehart and Welzel is that it allows us to establish a link between our two pillars of the theoretical framework, the theory of modernization and the emergence of open access orders, that in turn provide a stable framework for taking decisions in situations of uncertainty, and this link is what we call cultural values.

If we remember, according to new institutional economics, the cultural framework constitutes a kind of scaffold built by humans with two basic pillars, physical capital and human capital, which in turn consists of the stock of knowledge (belief and values system) and of the institutions as a reflection of these. Well, the essential nuance that Inglehart and Welzel introduce is that what changes in the

first instance are cultural values, belief systems, as a consequence, of course, of socioeconomic development that allows for individuals to evolve in their demands and “forget” subsistence values to focus on self-expression values. But this is not all, these authors affirm, and this is again essential for our institutional framework, that cultural change follows a model of dependent trajectory and more specifically, that self-expression values (and for the matter, emancipative values) are of path dependence (Inglehart & Welzel, 2005: loc 4,362) and of a probabilistic nature, that is, although there is a tendency to a convergence of values, in no case is there a deterministic law that necessarily leads to total convergence(Inglehart & Welzel, 2005: loc 1,282).

With this scheme, which puts the origin of institutional change in socioeconomic change, we can explain how institutional change takes place. Let us not forget that the origins of the theory of modernization are in the Enlightenment, at the time of the First Industrial Revolution, when man truly began to dominate his natural environment. Inglehart and Welzel explain it this way: Socio-economic change begins with technological innovations that increase labour productivity and result in specialization (and we would add here, bringing up the postulates of institutional economics, impersonal exchange to the extent that the size of the markets increases), also increasing the levels of education and income. In this way, the fields of interaction between humans are diversified, transferring the emphasis of authority relations to bargaining relations, which in the long term brings cultural changes, which eventually involve greater participation in political decisions (Inglehart & Welzel, 2005: loc 548)

Other consequences regarding the political orientations of citizens, as explained by Fuchs and Klingemann in the work for which they are editors "Citizens and the State" (Klingemann & Fuchs, 1995) is that these cultural changes give rise to new demands for political participation, through social movements and citizen initiative groups, which are not motivated by concerns related to class conflict or by material demands, but rather motivated by identity or environmental issues.

## 2.3 Authority and bargaining relationships

Thus far, we have mentioned several times authority and bargaining to characterize relationships. Let us move a bit deeper on that account.

In this work, we are interested in the symmetrical and asymmetrical aspects of social relationships. A systemic approach to those aspects was attempted by Professor Harry Eckstein in 1973, and later complemented in a book published in 1977. Following a methodical taxonomy of social relationships, Professor Eckstein established that, within social units, asymmetric relationships could follow an authority pattern, that would eventually be enriched by interaction between the actors. An authority pattern takes place in a social unit, as a “set of asymmetric relations among hierarchically ordered members of the unit that involves the direction of the unit” (Eckstein, 1973; p.1153), where social units are collectives of individuals, hierarchic order express the fact the members of a unit are perceived as ranked at different levels, and the direction of a social unit encompasses the definition of its goals, the regulation of conduct of its members and the allocation of roles within it.

We all experience authority relations along our life, and we all tend to emancipate from authority relations as long as we grow, and we acquire knowledge and better economic conditions.

Authority is linked to power, which is defined as “the ability of some individuals, groups and communities to get their own way, or to achieve their goals, against challenges and resistance from those who are opposed to them” (Giddens & Sutton, 2021: 222). Following this concept of power, authority is legitimate power (Giddens & Sutton, 2021: 203).

Authority expresses itself in a relational mode. Some authority relations in which we have all been engaged at some point in life are at home, when we relate to our parents (or tutors, if that were the case), at school, when we relate to our teachers or within organizations, normally at work, when we relate to our boss.

Authority relations have been the object of much literature within the organizations, and notably within business organizations and educational organizations, facing them with cultural values. One of the first extensive works on organizations was undertaken by Geert Hofstede in the 1980s, where, after conducting surveys within his own organization, IBM (he called it HERMES in his book), he introduced the concept of power distance, among other cultural dimensions, to analyse authority relations (Hofstede, 1980), but it is not so common to find scholar works that deal with authority relations at the societal level. We see them mentioned in studies on values, and they usually focus on values differences, rather than on values change, which is what we pretend to study here.

Furthermore, we may distinguish between role-based and person-based authority. In business organizations or educational organizations, the CEO or the teacher are consented by the system which defines the limits of their role-based authority (Beck & Visholm, 2014: 228), and this intertwines with three ideal types of authority that we can express as traditional, charismatic and legal-rational, according to Weber's famous classification (Giddens & Sutton, 2021: 203). We can think of role-based authority as closed to legal-rational authority and person-based as closed to charismatic authority. Traditional authority would be closer to role-based authority, although its legitimacy stems from a different nature.

Let us remark that we must not confuse authority with authoritarian. It is the case that an individual may possess a system's consent and exercise his authority, but that does not mean that he or she is authoritarian.

Following the distinction between role-based and person-based authority, and the consent by the system, we may define authoritarian as the situation when the consent is overpassed by ways that cannot be justified by the organization's primary task, then, the way to exercise a role becomes authoritarian (Beck & Visholm, 2014: 230). If we go back to Weberian traditional authority, we believe that this sort of authority is prone to become authoritarian.

To complicate things further, we observe that an individual may accept person-based authority, but reject legal-rational authority, something that is evident in populist politics. A dramatic example was the seizure of the US Congress on January 6th, 2021, when Donald Trump used his charismatic authority to launch their followers against a supposedly well-established legal-rational authority. Note that his role-based authority, did not work, even if he tried it by commanding vice president Pence not to certify his victory in the Senate or similarly in some states of the Union. The role-based authority did not allow him to take that action. He was exceeding the primary task of his organization (the presidency). Institutions worked and he had to use his charismatic authority, that his followers understood as an indication to seize the Congress. His followers would not follow Donald Trump on his role as president of a nation, but as a charismatic leader. This is clear because they would not accept Vice President Pence's indications to depose their actions. Trump's followers, thus, were accepting charismatic authority while rejecting role-based authority

A common characteristic of all authority relations, irrespective of where they take place, is the asymmetry in the relationship. There is a centre that irradiates authority and a receptor of the authority. There is also asymmetry in the information available, and in many cases, in our opinion, there is also asymmetry in the action resources available, and, consequently, transaction costs are unevenly distributed between the two sides. In particular, opportunity costs are very different. The powerful side of the relation has a lower opportunity cost. Let us think, for example, of the boss in a company: The boss may choose you or another one for a particular task, and your opportunity cost of letting the train pass will always be higher than your boss' cost. If we turn to politics, we may think of a patronage situation, where the patron may choose your village or another one to profit from a new paved road or access to drinking water in exchange for votes.

In this dissertation we are going to consider authority relations as opposed to bargaining relations.

Bargaining relations can be defined as those relations where both parties have a real possibility of influencing the final outcome. A critical feature of these relations is its symmetry, although symmetry is not perfect.

For the arising of bargaining relations to take place, economic conditions need to improve, or looking through the glass of modernization theory, action resources need to be larger. More action resources for the individuals will bring a more symmetrical bargaining relationship as well as the possibility of impersonal exchange.

At the societal level, more action resources will eventually create bargaining-intensive societies, that will tend to consent political authority and wider access to political resources, which eventually result in constitutional regimes (Welzel, 2013; p.695). Following our example of the patronage system above, when your village already has access to drinking water, a paved road has been built and a school is in operation, the patron cannot offer much more, and the bargaining capacity of the village increases.

Similarly, bargaining relationships are common in open access orders, where problems can be solved with credibility and compromise (North et al., 2009; p.124), as opposed to the decision making in limited access orders.

This brings us to the next definition necessary for our theoretical framework.

## 2.4 Limited access orders and open access orders. Structural change

Following professor Douglass North and his colleagues, we define limited access orders, or natural states, as those where only a handful of individuals have access to both economic resources and political decision making. “The limited access order builds on personal relationships and repeated interaction: a hierarchy of personal relationships among powerful individuals at the top of the social order” (North et al., 2009; p. 32). This is what Professors Inglehart and Welzel would call a network of authority relations that overshadows bargaining. It is very

important to note that those powerful individuals at the top of the social order are commonly designated as the elites (more about this below)

Natural states have been the most common societal order in history, and North et al distinguish three types (North et al., 2009; pp. 42-52) (North et al., 2013)

- Fragile limited access orders, where the relationships at the top are unstable, and hence organizational structures are weak. The most important organization in this societal order is the state itself (the web of relationships for that matter), but external changes may cause turmoil within the elites, warring, and the conformation of a new coalition, because there is no control over the military
- Basic limited access orders, enjoy a more stable organizational structure, but only for those organizations that are closely linked to the state, and still there is no absolute control of violence
- Mature limited access orders are those where durable institutional structures are in place and they are not necessarily linked to the state, i.e., private organizations are durable. Control of violence is exerted by the state.

An open access order, according to North and his colleagues is characterized by just the opposite, i.e., by granting individuals access to both political and economic organizations, which in turn, as we just said above, following Professor Welzel “create bargaining - intensive societies, which result in constitutional regimes with political authority consented and controlled by wider segments of the population” (Welzel, 2013; p.603). We see that the parallel in the descriptions are notorious, and that all open access orders are liberal democracies, albeit the reciprocal is not. In fact, most of the countries in the world, whether they call themselves democracies or not, are limited access orders, and only a few have transitioned from limited access to open access orders.

For the purpose of our work, we would like to explicitly add to this definition, that an open access order should also grant citizens access to social services, such

as healthcare or education. This is implicitly stated in North et al definition, but it is important to explicitly state it.

Moreover, the framework we are building with these two theories, does not imply an inescapable path from limited access orders to open access ones. There is no teleology implied by the framework (North et al., 2009; p.12), or according to Welzel, the "[…] theory is not deterministic but probabilistic. Certain natural endowments are givens, and they place societies within a possibility corridor from which they cannot escape. But this corridor can be broad" (Welzel, 2013; p.606), and setbacks are possible and frequent, as history has shown us. We see that path dependence, a crucial element in the new institutional economics, is also present in modernization theory, but the corridor is wide.

Now that we know the two extremes of the axis, we define structural change or institutional change as the process towards an open access order, materialised in the institutional arrangements that favour the free access of individuals to political and economic resources.

We believe that this axis is more convenient to define structural change than the axis democracy-dictatorship, for two reasons. To begin with democracy has become a fuzz word, so widely used that is a catch-all term that accepts many different interpretations, not only from scholars, but from the common citizen as well. The popular understandings of democracy may be particularly confusing, especially if decoupled from emancipative values (Welzel & Kirsch, 2018) (Lu & Chu, 2022). Thus, we have intrinsic vs functional definitions of democracy, and a myriad of classifications from a seemingly myriad of institutes and think tanks. More about this in section four.

Secondly, all countries pretend to be democracies. Practically no country in the world dares say that they are not a democracy, or a popular democracy. See for instance China, who claims to be the largest democracy on earth.[22]

22 See The Hindu, Dec 10th 2021 https://www.thehindu.com/news/international/china-claims-its-the-largest-democracy/article37928233.ece or see The Economist Dec 4th 2021 https://www.economist.com/china/2021/12/04/china-says-it-is-more-democratic-than-america

## 2.5 Elites and the relationships among them

A brief reference to elites before we move on is necessary at this point, because as we have seen they are at the centre of authority relations and the societal orders. For these definitions we will use the works of professors Higley, Burton and Gunther, who in different works studied the role of elites in the transitions of societal orders.

We can define elites, as “persons who are able, by virtue of their strategic positions in powerful organizations, to affect political outcomes regularly and substantially” (Higley & Burton, 2006; p. 13). Elites are the principal decision makers in the largest or more resource-rich political, governmental, economic, military, professional, communications, and cultural organizations and movements in a society.

Elites must possess acknowledged authority vis-à-vis an organized sector of society. The stability of a regime depends on agreements that can be struck only among elites representing rival organizations or factions.

We can consider two basic dimensions in the functioning of elites: structural integration and the extent of value consensus. Structural integration involves the communication channels among the members of the elite, and value consensus involves the agreements on rules and codes of conduct and on the legitimacy of political institutions. Considering these two dimensions, there are three basic types of elites

1. Disunified elite. Structural integration and value consensus are minimal. Factions do not have regular communication channels. They disagree on the rules of political conduct. Distrust. Politics of war. There is a dominant faction that controls the access to political or economic resources, but the lack of consensus deems the regimes unstable, because they are in a zero-sum game.
2. Consensually unified elite. The opposite of above. Most elites have access to political (government decision making) and economic resources. They

play in a positive-sum game, or politics-as-bargaining". The regime here is much more operational and stable

3. Ideologically unified elite, in which structural integration and value consensus are seemingly monolithic.

What is important to highlight is that for institutional change to take place, it is necessary that some sort of agreement comes in place within the elites, and that agreement comes hand in hand with the rule of law. As North et al explain, the rule of law is implanted first within the elites to let them organise themselves in a process of depersonalization of power. In Europe that happened in a first instance in the transition from the *ancien regime* to parliamentary monarchies or republics in each case.

## 2.6 An illustration of the theoretical framework

To illustrate our theoretical framework, we have designed the chart below (Figure 1) stemming from the main access limited access orders – open access orders.

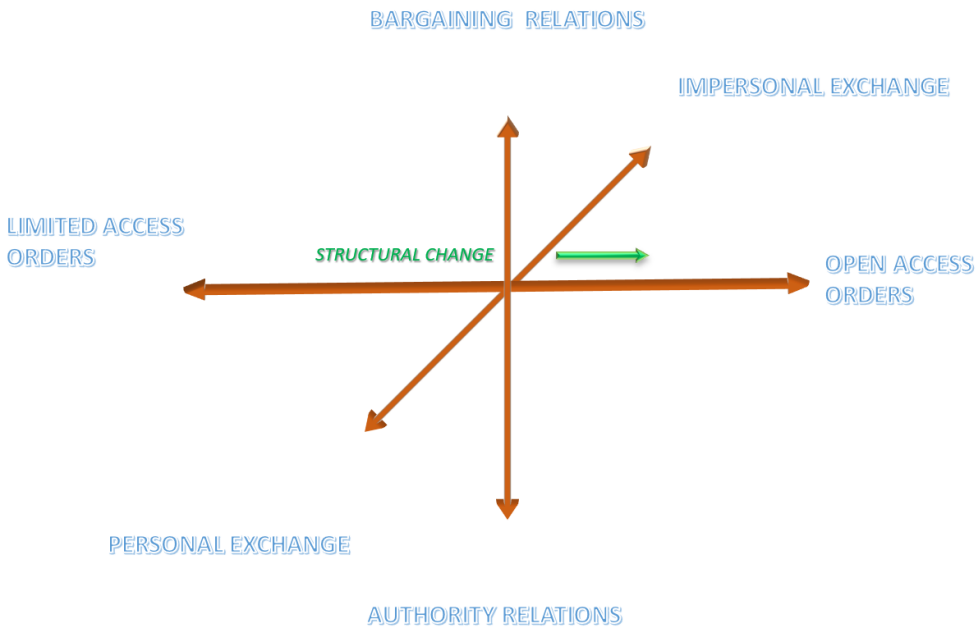


FIGURE 1 THE THEORETICAL FRAMEWORK. OWN ELABORATION

We cross the horizontal axis with a vertical axis to signal bargaining vs authority relations, and in the quadrant where open access and bargaining relations are preponderant, impersonal exchange (and hence depersonalized power appears), whereas in the opposite quadrant personal exchange (and hence personalized power) dominates. The institutional framework is weaker in this latter case, above all because the succession between the holders of power is not guaranteed, whereas in societies that are evolving towards open access orders there are mechanisms for succession.

The rule of law is a sort of *invisible hand* that allows for depersonalization of power to appear within the elites first, probably as an informal institution and later as a formal one, and that it is expanded to the rest of the society in the process of evolving towards open access.

As we have said, both theories, new institutional economics and modernization theory are well known among scholars, but seldom they appear together in papers and studies. From our point of view, they are perfectly compatible, and they complement each other. New Institutional economics also considers technological advances as a trigger for change, by reducing transaction costs, together with institutions (North, 1990; p. 61), and it stresses the importance of the system of beliefs (values, according to modernization theory), but it has been thank to the modernization theorists that surveys as the World Values Survey have been undertaken, allowing for a measure of the evolution of these values in social orders.

Modernization theory, on its end, counts on institutions. See for instance (Inglehart & Welzel, 2005; chap 1) (Welzel, 2013; chap 3), but it fails to consider the importance of elites and the fact that the quest for emancipation takes place first within the elites and later is extended to other layers in society.

A final note before we move on. This framework may be criticised because it can be argued that we are mixing a structuralist theory (new institutional economics) with a constructivist theory (modernization theory). Let us see where we are for this matter.

First, maybe when these theories were born, they could be classified as structuralist and constructivist respectively, but the border between these two conceptual views is very much blurred nowadays. There is practically no theory in social sciences purely structuralist or purely constructivist today.

The latest postulates of new institutional economics take elements that are clearly constructivist, when they consider the system of beliefs, and modernization theory, as per the latest advances by the late Professor Inglehart and Christian Welzel, consider the interplay with institutions. Let us of forget that for them (even for Seymour Lipset), the technological progress is the first trigger for the rest of changes in society.

Second, precisely because the border between those two approaches is blurred, there is no need to ascribe to one or other approach exclusively. There are certain well-known currents, led by Anthony Giddens or Bruno Latour, or even Manuel Castells who try to synthesize both approaches and combine them to improve the explanatory capacity of their theories.

By no means, we pretend to set up a new current, but our work tries to combine those elements of new institutional economics and modernization theory that are compatible and try to improve the explanatory capacity of the theories when they are taken separately.

At this point, we are equipped with an institutional framework that explains well the relationships between individuals, giving the importance they deserve to the institutions as generating the incentives that modulate the relations of exchange between them, and with an evident cultural component in form of stock of knowledge, which evolves fundamentally from socioeconomic change in a trajectory that depends precisely on the previous knowledge stock itself. Let us see now how this framework will help us answer the question that is the object of this work.

# III. THE RULE OF LAW, ECONOMIC GROWTH AND OPEN ACCESS ORDERS IN LATIN AMERICA

## 3.1 LATIN AMERICA IN ITS CONTEXT

The first thing we can highlight about Latin America is that by no means was it alien to the historical process that was taking place in Europe and North America. Unlike other regions in the world, as soon as comparative history or comparative sociology was in place, that is to say, at least since the beginning of the nineteenth century, Latin America or the countries in the region were compared to their northern neighbours and to Europe. An early and very significant example is the influential “Democracy in America” written by Alexis de Tocqueville, where he dedicated several pages to compare the “misfortunes” of South America. Furthermore, the processes of independence from Spain were inspired by the same principles as in the North, and the influence of liberal French, English, as well as liberal Spanish thinkers is undeniable (Colley, 2021; pp. 230-250). The intellectual traditions are common and cultural ties have always been too close. Both at the intellectual and cultural arenas, Latin America was part of the European tradition, contributing with not but a few names to the panorama of the time.

The second thing we can highlight, in this case with regard to the development of democracy in the region, are the ebbs and flows of history, in a kind of "I-want-but-I-can't" that frustrated the democratic aspirations of the elites (or rather part of the elites), who were never able to set a plausible playing level field for the rule of law, despite the laudable intentions of the heroes of independence, like Francisco de Paula Santander, who notoriously stated “Colombians, weapons have given you independence. Laws will give you freedom”[23], or Andrés Bello, for whom the rule of law was “*la patria verdadera*” (Jaksic Andrade, 2001; p. 212).

23 “Colombianos, las armas os han dado independencia. Las leyes os darán libertad” As it is written in the frontispiece of the Palace of Justice in Bogotá, Plaza Bolívar.

If we observe the evolution of these regimes, changing from authoritarianism to democracy and vice versa, we see, with the exception of the Cuban case, that the social bases on which they were based have not changed. The institutional framework remained, with accommodating social elites in a pattern of governance, according to Francis Fukuyama, similar to that of the old French regime, and of course that of colonial Spain (Fukuyama, 2011: 357).

Limited access orders, or natural states, are certainly, dynamic. They have been dominating the scene since the end of hunter-gatherer societies, and there are many variants of them. Only mature natural states will be able to cross the border to an open access order (North et al., 2009; p.270), and as we have seen above, adopting the rule of law, first for elites, and then for the rest of the population of one given country, is a necessary, but not sufficient condition for this transition.

The adoption of the rule of law is also a sequential process, with setbacks and diversions which differ from country to country, but according to the literature on the matter, there are fundamentally two ways for adopting it: the bureaucratic path (fundamentally consuetudinary) and the patrimonial path (fundamentally absolutist). The bureaucratic path favours impersonal exchange, and hence bargaining relations, whereas the patrimonial path favours personal exchange, and hence authority relations.

For the purpose of this work, we can focus on the adoption of the rule of law in Europe since the turn of the first millennial of our era. Monarchies in Europe were stabilizing, and they were in dire needs of financing. In Latin Europe (i.e. at the time France, Castile, Aragon), kings practiced a game of “divide and conquer” generating comparative grievances between the nobility elite (Fukuyama, 2011; p.352), as well as a skein of tax exemptions practically at the discretion of the monarch, and that gave way to the patrimonial path. In England, on the contrary, may be the nobility was more demanding, and the monarch did not feel so strong, and it would eventually give birth to the Magna Carta that we mentioned above, a list of privileges for the nobles that demanded a certain regularity for the call of the parliament, and this arrangement led to the bureaucratic path.

Financing was eventually handled by the sale of offices or venality, again with some differences between France, England and, now yes, Spain. In France the sale became a proper institution, with even an annual tax (the Paulette) that secured a regular income for the monarch. In England, venality was not so well established, and it did not give so much power to the office-holder (Brewer, 1989; p.14), whereas in Spain, venality as a business came later in time, although in the Americas, as we will see, they could be sold at perpetuity (Tomás y Valiente, 1982; p.129). These practices gave birth to a more or less dense legal framework that applied for the elites, although some social mobility was also possible thanks to the office trade. In what refers to the rule of law, we can say that it applied for the relationship between the local elites and the metropolis, but it was unstable for the relationships within the elites themselves.

When in the countries of northern Europe, absolutism was weakened by the union of the aristocracy with the bourgeoisie against the royal power, in Spain and in France, these elites were divided among themselves, fighting for the opportunities that the sovereign offered to share the rents, through this trade in offices and concessions. The public and the private realms were confused, which is the main feature of a patrimonial state.

In parallel with this, the development of the parliamentary assemblies (call them Cortes in Spain) suffered different fates. In northern Europe they acquired *raison d'être* as a counterweight to the power of the Crown, while in France and Spain, little less than they disappeared and in the case of the Colonies, they were not even created.

But as we anticipated, there is some particularity in the *patrimonialization* of the state in Latin America, which diverges from the case of the metropolis. The prominent Spanish jurist Francisco Tomás y Valiente highlights it in a study he carried out in this regard: king Phillip III issued a decree on December 14th,1606, that regarded the sale of offices at perpetuity or "by oath of inheritance"[24], instead of for one or two lives, and they were transmissible and negotiable, thus creating

24 In Spanish “por juro de heredad”

a true trade of offices (Tomás y Valiente, 1982; p.125), and hence, in the Indies, the phenomenon of confusion between the public and the private realms was even more accentuated.

The reasons why the Spanish Crown made that decision are not entirely clear. Sources of the time argued that the sale price of an office in perpetuity increased the value of it and the law said that in each transmission you had to pay half or a third to the Crown, depending on the case, so that every two or three transmissions, the result for the Crown performed as if it were a new sale (Tomás y Valiente, 1982; 129).

The consequences of this decision of the Crown go in two directions: On the one hand, the administrative machine suffered, since control over the benefits of the officeholder was lost, because only the price mechanism functioned without the counterweight of *"good government"*[25]*,* at least a priori. We must reckon that there are cases in the audiences raised against officeholders who were not behaving properly in the exercise of their power.

On the other, the mechanism would facilitate the implantation of hereditary oligarchies in the cities through the control of the government (Tomás y Valiente, 1982; 132). This incentivised personal exchange in those far lands, for local authority is obviously more personal that the authority exerted from a royal envoy. Authority was definitely in the hands of the officeholder who could exert it through personal relations, either by maintaining the office within the family or selling it on a personal basis, and not on a public auction or to a third party designed by the king. It is very important to notice here that individuals could hold more than one office, perpetuating personal exchange within the elite class.

Of course, not all offices are equivalent, being those related to the government of a municipality (aldermen-regidores) and treasurers the most attractive, and it was common that the big landowners were also officeholders at that time. This is the structure that was operational at the beginning of the wars of independence.

25 Today, we would assimilate this to governance

If we take this to the economic organizations, our point is that the East India Company, from England, the *Casa de Contratación*, from Spain, or the Dutch East India Company, they were all created under extractive institutional arrangements, but the relations behind them were different. In the case of the East India Company, for instance the stakeholders were members of parliament[26], and businessmen, giving rise to a network of relations of a bargaining stance within the elites. That is to say, in the East India Company and the Dutch equivalent, relations were subject to standardised rules and eventually to the rule of law, whereas rules in *Casa de Contratación* were much more discretional, emanating from the Crown, and subject to personal relations. The first two companies were proto capitalist, whereas the Spanish (or Castilian for that matter) company was fully mercantilist. Authority relations were predominant in this latter case, whereas bargaining relations were breaching their way in the former. We understand that it is necessary to deepen in the study of the traits of these organizations, and while acknowledging that they are all extractive, the institutional arrangements behind them are certainly different, and that has had consequences.

The legacy of the colonial institutional framework is present in one way or another in all the literature that tries to explain the evolution of capitalism and democracy in Latin America, but to us, this specific circumstance that we have just described has a special relevance in this heritage and has undoubtedly influenced the long journey that oligarchic capitalism has had in the region, and it would be worth studying it deeper.

Indeed, as the Latin American economies entered international trade on their own feet, adopting capitalist forms of production until reaching the crisis of the oligarchic state, the bourgeoisie, according to the thesis of Professor Atilio Borón, faced the dilemma of entering into a bourgeois-democratic revolution that would overcome the obstacles of capitalist development or engage, as it happened, a Bonapartist alliance, thus linking its destiny to the traditional privileged classes

26 Up to one third of MPs were stakeholders of the company, according to Walpole (Fontana, 2019)

(Borón, 1992: 88), thus contributing to the succession of Bonapartist[27] (and populist in its case) regimes during the twentieth century.

Returning to our institutional framework, we find in Latin America a political structure dominated by disunited elites, a structure of property rights dominated by the phenomenon of a patrimonial state, and a social structure dominated by relations of authority, rather than by bargaining relations. None of them were favourable for a transition towards an open access order.

Also note that where authority relations are pervasive, exchange and trade tend to be personalized. We can say that authority relations are functional to personalized trade. Goods and services are exchanged giving more prominence to considerations other than the objective properties of those goods and services, which discourage innovation and investment and ultimately provide poor economic growth.

In addition, as long as these authority relations are not broken, power maintains a strongly personalized character, slowing down the transition to an open access order, or giving rise to democracies with too many flaws, even if they are formally constituted as such.

## 3.2 THE DEVELOPMENT OF CAPITALISM IN LATIN AMERICA

As we have seen, back in 1959, the only region comparable in sociological terms to Europe or the Anglo-Saxon countries was Latin America. Although it was already clearly lagging behind the US, there were countries with positive flashes and World War II had strengthened the export capacity of the region (Bértola & Ocampo, 2013: 188) and yet, in the last quarter of the Twentieth Century we find a panorama in which Asian economies overtake the region in socioeconomic indicators. But even more striking than that is that those economies did not have cycles as pronounced as those seen in Latin America. Not only did they grow more, but they grew more harmoniously, and when in that region they had a

27 Bonapartist in the Marxist sense, i.e., an alliance between the economic elites and the military to hold the power in a non-democratic fashion

sneeze, as for example was the case with the 1997-1998 financial crisis, in Latin America they had a serious cold from which they did not recover until 2002 (the so-called lost half decade).

A persistent aspect in the economic history of Latin America since Independence is the economic lag vis à vis North America and Europe, but this does not mean that pessimism has been the only prospect for Latin America. On the contrary, it is true that the comparison with the northern neighbours has been inevitable since the first sociological studies, with references that come from Alexis de Tocqueville, as we have seen in the introduction, this does not mean that the pessimistic vision has always prevailed about the development of the region. At the beginning of the twentieth century, there was a time of clear optimism, in which writings abounded that advocated an upcoming advance to the northern neighbours (Halperin Donghi, 2008: 25-26), or even claiming the possibility or just leading the world (Guardiola-Rivera, 2010)

The theory of the institutional heritage of Latin America is a common place in the historiographical literature of the region. Of course, cultural values and inherited religious values are of fundamental importance in the subsequent evolution of the region. We are not discovering anything new. However, given the issue we are dealing with in this work, it is appropriate to look at two institutional aspects that has not been so profusely studied and which, in our opinion has had a clear stand at the origin of the institutional differences between the Anglo-Saxon world and the so-called Latin world, due to its influence in the type of relationships that are established between the actors. We are referring to the *patrimonialization* of the state and the development of trade.

### 3.2.1 The process of *patrimonialization* of the state

Certainly, the fiscal aspects have had a great weight in the conformation of the European institutions, but the results have been different in each case depending on how the monarchies have tried to solve these questions. Ultimately depending on the relationships that the monarchies established with the rest of the actors to

finance their cash deficits and whether the situation became a fiscal crisis, or the deficit was financed with the agreement of those actors.

Francis Fukuyama, regardless of his ideological positioning, of which there would be much to talk about, since his evolution is quite evident from his postulates of the early 90s in which in a deterministic drift of the theories of modernization we have described was aligned with the neoconservative positions of the moment and even surprisingly advocated the end of History (Cortázar, 1993: 42-44), on the other hand it has some very academic works on institutional development (Fukuyama, 2011) (Fukuyama, 2014). Specifically, he explains that the institutional development of Latin Europe and more particularly of France and Spain was done through the *patrimonialization* of the State, in what constituted a genuine privatization process, leading to a confusion between the public and the private

The monarchies in Latin Europe, in need of financing, but jealous of its power, practiced a game of “divide and conquer” creating, on the one hand, comparative grievances between nobility and bourgeoisie and establishing a tax system that taxed the peasants and the nascent bourgeoisie more than the landed nobility (Fukuyama, 2011: 352), creating a skein of tax exemptions and on the other hand, granting, actually “selling” first in France in the 16th century and in Spain from the 17th century on the administrative offices in what was a privatization process of the state administration (Thompson, 1994: 218), especially tax offices. The economic effect of this action on the part of the monarchy is that a “rent seeking” class was formed, which produced nothing and precisely discouraged productive activity.

In addition, in the Spanish case, it should be added that gold and silver that came from America reduced the dependence of the monarchy on internal financing, multiplying the possibilities of extracting income.

This fiscal system helped to compose an absolutist regime in France and Spain, although with weaknesses and a constitutional regime in Britain and Sweden in what Professor Thomas Ertman has classified according to the following table

(Ertman, 1997). This author also emphasizes the type of relationships that were created between the monarchy and the rest of the actors, more homogeneous in the case of Great Britain and more of the "divide and conquer" type in the case of Spain and France.

| | | Political regime | |
|---|---|---|---|
| | | Absolutist | Constitutional |
| State infrastructure | Patrimonial | France, Spain, Portugal, Tuscany, Naples, Savoy, Papal states (Latin Europe) | Poland, Hungary |
| | Bureaucratic | German territorial states, Denmark | Great Britain, Sweden |

Thus, crisis after crisis and war after war, we reach the French Revolution and the dawn of the nineteenth century, into which Spain enters into a radicalized and fearful absolutist regime after the events in France, going through a brief period of Napoleon seizing power in Spain. Things well known to all happen, the most shocking, a very bloody war at the initiative of the people, abandoned by its highest authorities, and on whose grounds the nation emerges as we know it today. It is the most troubled century in our history (Álvarez Junco, 2010)

As we know, while this was happening in Spain, and according to the latest historiography, on the other side of the Atlantic, the different independence processes were undertaken, precisely taking as an excuse the void of power in the metropolis after the Napoleonic invasion (Annino, 2014) (Pérez Brignoli, 2018) (Lucena Giraldo, 2010) and not so much internal structural factors[28]. The patrimonial model that we have described, had been transferred as it were to that region since the sixteenth century, with some interesting peculiarity with respect to what was the process in Europe that we will analyse later, creating relations of authority that prevailed over the bargaining relations, and favoured networks of

28 We could certainly ask ourselves, with Professor Alan Knight, why this void of power triggered the independence process, and not the void caused one century earlier by the War of Spanish Succession (Knight, 2022; p. 16), but it is not the purpose of this work.

personalized power and dependence that encouraged clientelism and an economy of extractive income, not so different in its origins from the economy implanted in the British colonies of the North, but with different underlying relations, as we have mentioned above. This is critical for economic development, because the relationships established did not allow for a reduction of transaction costs in the exchange.

We see, then, that the development of capitalism in Latin America was very much conditioned by this institutional framework in which, high transaction costs gave rise to a type of economic incentives not precisely favouring business innovation giving birth to a structure of local (or immigrant) entrepreneurship very focused on agricultural or commercial sectors (Moreno Lázaro & Romero Ibarra, 2011: 317) and very vitiated by this patrimonial concept of the state.

On another ground, there is no doubt that there are physical factors that also condition the development of capitalism. Geography is critical. It is clear that in a Europe without physical barriers, markets develop more easily than in places where access is as limited as in certain regions of South America (Bértola & Ocampo, 2013: 102). We will not enter into these conditions, but there is no shortage of voices that emphasize the importance of infrastructure development, and it is certainly a challenge for the future (OCDE, 2014).

## 3.3 BRIEF NOTIONS OF THE ECONOMIC HISTORY OF LATIN AMERICA AFTER INDEPENDENCE

In this part of the dissertation, we will make a brief review of the fundamental elements of the recent economic history of Latin America to be able to undertake our investigative analysis in the third part with a contextual basis.

We will not follow linear review, but we will look at the two gaps that opened up in Latin America's growth with respect to the West and the two "responses" that took place to recover lost ground.

Let us summon the three major common denominators of Latin American economy: (1) the gap that opened with respect to the rest of the Western world, (2) inequality in the distribution of wealth and (3) the enormous volatility that produces strong oscillations in the economic cycle.

As we said in the introduction, the economic history of Latin America has been marked by despair and this is attested by some of the titles of the most used history manuals (Dornbusch & Edwards, 1991), (Thorp, 1998), (Ocampo & Bértola, 2012).

Likewise, any study of the economic history of the region inevitably leads us to compare with other regions, particularly with the United States, Europe and in general with the rest of the Western world, of which Latin America is a part, and to try to explain the gap between Latin America and the rest of the West.

The parameter par excellence to begin an economic analysis is GDP per capita. In manual written by professors Luis Bértola and José Antonio Ocampo (2013) we are presented with an interesting chart (figure 2) that relates population growth with this parameter from the year 1500 to the present, marking a division in 1820, a year that we can consider as a reference of the independence of Latin American countries against the former colonial powers.

The interesting thing about this graph is that in relation to population growth, the pattern of GDP growth in Latin America has been exactly the opposite to the rest of the Western world.

Between 1500 and 1820 the growth of the region's GDP per capita occurs in parallel with a population decrease, which means that the growth is due to increases in productivity, while from 1820, the growth of the region's GDP per capita occurs in parallel with a population explosion, which means that the region's growth came at the expense of productivity. If we consider the "West" region, which comprises the 12 countries of the EU12 plus Australia, Canada, the United States and New Zealand, the case is exactly the opposite, which is

reflected in the fact that the gap between Latin America and the rest of the world occurs precisely from 1820, from the independence of these countries.

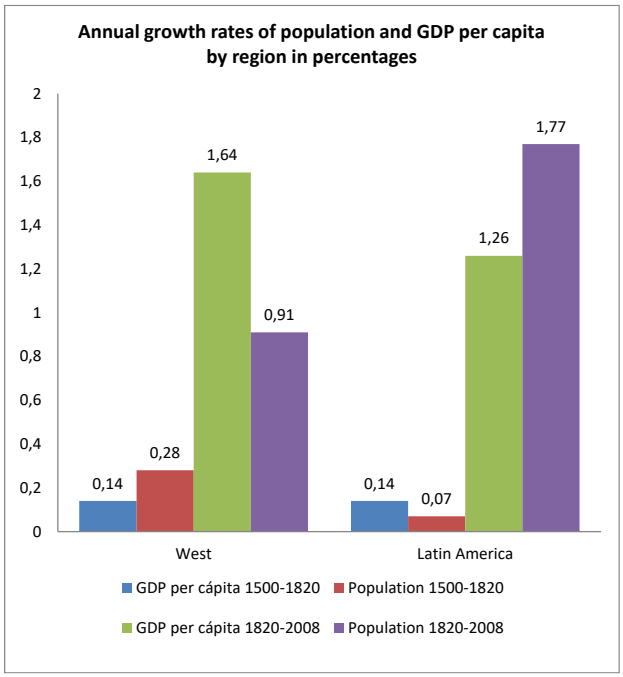


**FIGURE 2 SOURCE BÉRTOLA AND OCAMPO, 2013**

Of course, this is not to simply infer that with the colonial system the countries of Latin America fared better, but that the rest of the West underwent fundamental changes in this period. Changes in the institutional framework that in Latin America did not occur at that time (neither in Spain by the way), and when they came, they took large delays to be implemented.

In the first decades after Independence, that time in which the sharp political observer that was Alexis de Tocqueville, as we mentioned in the introduction, expressed his vision of a Latin America lagging behind its neighbours to the north. The countries to the south of the continent had natural riches similar to those of the United States, said de Tocqueville, but lacked their laws and customs (Tocqueville, 1989: 296). As a sign of his interpretative acuity of reality, remember that he foresaw that Texas would fall into the hands of the Americans a few years before it actually did (Tocqueville, 1989: 291) and even more, leaving the scope of this work, he foresaw that the two powers that would dispute power in the

coming years would be precisely the United States and Russia, both in the expansion phase while the rest of the world seemed to have reached their natural limits and were concerned exclusively with maintaining their power (Tocqueville, 1989: 371).[29]

### 3.3.1 Stages in economic history of Latin America since Independence

Figure 3 presents the region's average GDP per capita data divided by generic stages that we have considered relevant according to international events. We also show the ratio of GDP per capita of the region against the average of the West, which as we have said, includes the 12 countries of the EU12 plus Australia, Canada, the United States and New Zealand.

If we look at a first stage of Latin American economic history, which goes from 1820 to 1870, coinciding with the moment of what in economic history is called the first globalization[30], and the states resulting from the wars of Independence consolidate their borders, the gap between Latin America and the West grew from 1.80 to 2.73 times the GDP per capita, confirming the generally accepted idea that those first decades after Independence were not good in economic terms.

GDP per capita 1820-2008 (1990 Geary-Khamis dollars)

| | 1820 | 1870 | 1913 | 1950 | 1980 | 1990 | 2010 |
|---|---|---|---|---|---|---|---|
| Average Latin America | 683 | 790 | 1.956 | 2.442 | 5.441 | 5.067 | 7.272 |
| Average "West" | 1.231 | 2.155 | 5.247 | 6.740 | 15.903 | 19.500 | 27.356 |
| Growth rate between consecutive periods LATAM | | 15,67% | 147,59% | 24,85% | 122,81% | -6,87% | 43,52% |
| Growth rate between consecutive periods "West" | | 75,06% | 143,48% | 28,45% | 135,95% | 22,62% | 40,29% |
| Ratio Average "West"/ Latin America | 1,80 | 2,73 | 2,68 | 2,76 | 2,92 | 3,85 | 3,76 |

**FIGURE 3 SOURCE: OWN ELABORATION BASED ON DATA FROM BÉRTOLA AND OCAMPO, 2013**

29 "Democracy in America" was published in two volumes between 1835 and 1840, which shows its predictive capacity, although it overlooked the colonization of the African continent that took place throughout the nineteenth century.

30 For some authors, the first globalization took place in the sixteenth century, but we prefer to consider the nineteenth century, because it was the moment when the costs of transport and the costs of factors of production converged for the first time on a global basis.

We can consider a second stage that goes from 1870 until the beginning of the Great Depression in 1929, in which GDP per capita growth was rather even. The GDP per capita of the West with respect to the region remained at the environments of 2.7 times.

However, since then, the gap has widened again in successive stages. Until 1950 the GDP per capita already clearly exceeded 2.7 times and in the so-called golden age of growth (we have considered until 1980), despite observing a strong dynamism in the region, the truth is that "the West" grew more, placing the GDP per capita at 2.92 times. After that, it was the debacle. The great debt crisis, originated in Latin America, led to a terrible slowdown that set the ratio in 3,85 times. It is perfectly understandable that that period is known as the lost decade.

That is, until now we see that even with two wars in Europe in between, Latin America was not able to recover positions against the West, and in the face of a financial crisis, accompanied by strong shocks in commodity prices, Latin America suffered a tremendous lag compared to the region of which it is part.

However, between 1990 and 2010, there is a lukewarm recovery of positions, but above all, regardless of the data in the table, it is observed that without wars in the West, but in a recessionary environment that has affected most countries, Latin America is being able to recover even timidly positions with respect to the reference region.

### 3.3.2 Latin America's first growth gap

We have seen in table-figure 3 that there are two stages in which Latin America loses ground with respect to the West: the period immediately after Independence and the period after World War II.

Considering the historical context in which the first breach occurs, some authors have highlighted the violence unleashed during and after the wars of Independence and as it is well known, in an environment of war and anarchy, economic development is a chimera, so that finally individuals gathered in towns

and villages would prefer the so-called stationary bandits that Mancur Olson described in his famous article (Olson, 1993: 567). In the case at hand, it seems that a military dictatorship that would ensure order would be preferable to insecurity.

We lack sufficient elements to know if this was the situation, but in our referential manual for economic history, Bértola and Ocampo clearly favour the stance of a turbulent consolidation process of the new states. As Pérez Brignoli explains, the wars of independence were rather civil wars than a proper war against an occupying army, with practically the sole exception of the expedition commanded by Morillo, as General Captain of Venezuela (Pérez Brignoli, 2018; p. 88), but they were extremely violent. Bear in mind that Greater Colombia split into three different countries (Ecuador, Colombia and Venezuela) in 1830. The Captaincy General of Guatemala split into five countries in 1838, Mexico lost half of its territory to the United States in 1848, and Argentina did not come into existence until 1860, just to offer a few hints of the turbulence. Studies by Robert Bates (Bates et al. , 2007: 923) and other authors already mentioned as Tulio Halperin also highlight this turbulence as a very relevant fact.

However, as we have been defending, institutions have a chief role. As in colonial times, gold from Latin America allowed the Spanish and Portuguese monarchies to avoid relying on the incipient bourgeoisie for state financing, which supported the continuation of the absolutist state (Kalmanovitz, 2011: 49), at the moment when the countries achieved independence the possible bourgeois threats were laminated. The social structure with large slums of indigenous (and mestizo) population favoured the prevalence of authority relations over bargaining relations, which does not contradict the fact that there was, as it is detailed by professors Dobado and García, an adequate remuneration for workers in sectors that had experienced great development during the eighteenth century, as is the case of the mining sector (Dobado González & García Montero, 2014).

But let us look closer at financing. Fiscal revenues are a key factor in state formation. Low revenues favour a weak state (Dincecco, 2011) (North & Weingast, 1989), and the newborn republics of Hispanic America were short of

revenues. The efficient fiscal system from the viceroyalty was torn down after the wars of independence (Bértola & Gerchunoff, 2011; p. 26), and even if the metropolis was no longer the recipient of revenues, the new states at war were recurring to taxes and 'voluntary' efforts that were not enough to cover the costs of war. Taxes were based on commerce, and the fragmentation brought about by independence provoked a crisis in commerce, and the other source of revenues that was mining also suffered from a crisis in the extraction, due, among other reasons, to the shortage of mercury from Spain (Moreno-Brid & Ros-Bosch, 2011; p. 75). All in all, fiscal revenues decreased, although inequalities between regions became very apparent in this respect (Bértola & Gerchunoff, 2011; p.40-42), depending on the importance of commerce in each case.

As a counterpoint, let us indicate, that the United States after independence managed to obtain regular and significant revenues from the sale of lands to the new colonists that were expanding to the West. This was so since the 1790s, when Alexander Hamilton originally established this system (Taylor, 2021; p.45), but still in the 1830s, when president Andrew Jackson was fighting to speed up this process of Indian removal from their lands to let every white "citizen of enterprise the opportunity of securing an independent freehold", and hence ensuring relative equality among US citizens, and avoid the urban industrialist from becoming too wealthy and powerful profiting from cheap labour in the cities (ibid; pp. 274-278). Also notice here, that by commissioning lands to colonists, the participation of the new landowners in political decision-making was favoured, taking into account that the first democratic franchises required for voters to be proprietors.

In our view, the population composition is also of great importance, since, in the Anglo-Saxon areas of the continent, the almost absolute extermination of the indigenous population gave rise to a much more homogeneous population in which bargaining relations prevailed over authority relations, except for the slave

nuclei in the case of the United States.  based on non-indigenous people whose rights have been undermined until very recently[31].

We, therefore, observe that from independence until approximately 1870, an institutional framework was withheld, in an environment of serious conflicts and anarchy, inherited from the viceroyalty era, with a strong patrimonial component in which society was organized in a corporate way based on concessions to privileged groups (guilds, armies and Church), as well as certain individuals (from prominent families well connected in the metropolis), which imposed restrictions in the institutional sense that we defined in chapter II, that did not favour the depersonalized exchange, necessary for socio-economic development, thus causing the first major gap between the West and the region.

It is an institutional framework that had proven effective for the maintenance of the absolute monarchies of Spain and Portugal and for the management of territories on the other side of the Atlantic, but inappropriate for the socio-economic development of independent countries. The elites did not see or did not want to see the need for change, rather they could maintain an institutional framework that, in the absence of strong threats, allowed them to defend their interests and maintain their positions of dominance in the social order established.

We must insist here, that it is not so much the existence of the eagerly vaunted extractive institutional system, whose organizations, apart from the already mentioned East India Company and the rest, also persisted in the North after the colony, with the slave plantations, for instance. Certainly, mining was important in the Viceroyalty and after independence (and note that generally, as we have mentioned, their employees were remunerated), but not because the Spanish crown was greedier than, say, the British crown, but for the simple reason that those natural resources were there. Similar episodes also occurred in the North, with the gold rush, or with Texas oil, already with a settled capitalist system. For us, the critical element are the relationships behind those organizations, rather

31 The latest census in the USA estimates a population of American Indian origin of only 1,3%. See https://www.census.gov/quickfacts/fact/table/US/PST045222 last visit Oct 29th, 2023.

than the organizations themselves, what mark the different economic development.

### 3.3.3 Latin America's second growth gap. The debt crisis

The second gap is much more recent and is well studied and with a great abundance of data. It occurs during the so-called lost decade, after the serious crisis unleashed in 1982, when Mexico announced that it could not service its debt.

The surprising thing about the case is that at that time, Mexico, an oil-exporting country, was benefiting from high oil prices, which made it more inexplicable that financial imbalances led it to make such a decision.

Imbalances, of course, had been brewing up for years. Latin America started from very low external financing ratios, which were increasing throughout the 70s, thanks to the abundance of petrodollars derived from the increase in oil prices. Latin America absorbed more than 50% of private debt to the developing world between 1973 and 1981 (Bértola and Ocampo, 2013: 249), in a world in which the capital market was developing after a long period of containment following World War II. At the same time, Latin America was the region of the world that attracted the most foreign direct investment (FDI).

External and fiscal deficits soon manifested themselves, but the new modalities of syndicated loans by international banks, which distributed the risk among a multitude of smaller banks, did not allow this risk to be clearly perceived[32]. In these circumstances, there was an unexpected external shock (the so-called "Volcker shock" of 1979), consisting of an increase in interest rates in the US, with the aim of curtailing the inflationary spiral in that country, ultimately derived from successive increases in oil prices. The rise in interest rates raised the debt

32 Later we will see that the "novelty" of financial instruments is a common feature of financial crises.

burden to represent 47% of the value of exports in 1982 (Bárcena, 2014: 14), brutally accentuating the current account and balance of payments deficits.

The temporary moratorium announced by Mexico in August 1982 marks the beginning of the lost decade, as we said in the Introduction, but it was not even the first country to fall. Costa Rica had already declared a moratorium in 1981 and other countries were also experiencing debt-servicing difficulties, which were aggravated in countries where exchange controls were laxer (cases of Argentina and Venezuela, along with the aforementioned Mexico). The flight of capital to safer places was intense in those years, leaving the coffers of foreign currency empty.

It is now generally accepted that the lack of an adequate international response plunged Latin America into the worst crisis in its history. The effort to delay the moratoriums and conditionalities established by the so-called Baker plan in 1985 (named after James Baker, US Secretary of the Treasury between 1985 and 1988), only worsened the perception of creditors about the possibilities of recovery of the countries, which turned their international accounts upside down, at the cost of tremendous falls in GDP growth. In the words of Professor Ocampo, Latin America can be considered in this sense a victim of a way of handling what was also a US banking crisis (Ocampo, 2014: 48), and the measures adopted were more appropriate to avoid a financial crisis in the USA than to manage the crisis in the region.

The crisis did not end until the so-called Brady Plan was launched in 1989 (after Nicholas Brady, Secretary of the Treasury between 1988 and 1993, under the presidencies of Ronald Reagan and later George H. Bush), which replaced the aforementioned Baker plan and brought the novelty of including partial debt write-offs together with the creation of the Brady bonds to replace the bank loans[33].

33 These bonds were denominated in dollars and as tradable instruments, they allowed, once again, for the spreading of risks among a large number of asset holders.

We see that the first gap had a clear institutional component due to the existence of an inappropriate framework for the integration of Latin America into the capitalist system as it was developing in Europe and North America.

The second gap also has an institutional component. Latin America had inserted itself (or had been inserted) into the international financial system, as a beneficiary of credit and direct investment, but at the time of the crisis, it did not have the adequate institutional framework to respond to the tensions created. In particular, the region as a whole did not have an adequate financial system to deal with interest rates and exchange rates and also had to face an attempt to impose conditions by creditors for which there was no adequate institutional response. The cases of Mexico and Argentina described in the introduction are very illustrative of this.

The economic and political consequences of this crisis will be discussed below. They stem from the *imposition* of an agenda of economic policy instruments that was called the Washington Consensus.

But first, let's look briefly at what happened in between, in that other long period in which Latin America remained in terms of growth on similar rates with the rest of the West.

### 3.3.4 Pairing growth

From the long period from 1870 to 1980 during which Latin America sustained economic development in terms of GDP per capita growth similar to that of the rest of the West, it is worth highlighting a first period, coinciding with the so-called first globalization, in which the region was integrated into international trade based on a primary-export expansion.  that is, exporting raw materials and a second stage marked by the policies of import-substitution industrialization (ISI) or more appropriately, state-led industrialization.

In our view, the first stage did not bring substantial changes in the institutional framework, while the second was a clear attempt to change the institutional framework, through a shift in the productive structure of the region.

The leading organization at this time was the Economic Commission for Latin America and the Caribbean (ECLAC) and in particular its executive secretary between 1950 and 1963, Raúl Prebisch.

The period of state-led industrialization arises from the attempt to overcome the dichotomy between what was called "core" and "periphery" (Bielschowsky, 1998: 24), according to which the underdeveloped economic structure of the countries of Latin America determined a specific pattern of insertion in the world economy as a "periphery", producer of goods and services with a little dynamic international demand and instead, importer of goods and services with rapidly expanding demand. The oil crisis in the 1970s and the rush for commodities that came later would prove false this supposed undynamic stance of this type of goods.

In a sort of path dependency, such as the one described in Chapter II, the institutional framework of Latin America determined a unique form of industrialization, of introducing technical progress, as well as of absorbing the labour force and distributing income, which made the international insertion of their economies conditioned by specialization in primary goods closely linked to economic cycles, with the aggravating factor, as seen at the time, that the prices of industrial goods were rather inelastic to falls in demand, while those of primary goods fluctuated upwards or downwards with great volatility. Moreover, according to Prebisch's theory, the long-term trend would be for commodity prices to fall[34].

To break this trend, which entailed a chronic dependence of the economies of the region on the international economic cycle, industrialization policies were put in place with which the State assumed great responsibility through the creation of development banks, and even commercial banks, the design of mechanisms

34 A brief explanation of this theory can be found on ECLAC's website. https://biblioguias.cepal.org/prebisch_en/ Last visited August 10th, 2023

to force private financial institutions to channel funds to sectors considered priority (directed credit), as well as the promotion of national private enterprises through protective measures and government contracts and finally through the strong intervention in agricultural markets (Bértola and Ocampo, 2013: 193).

This stage brought on the one hand the longest periods of growth in Latin America, which, nevertheless, was not enough to reduce the gap with the West, although as Figure 4 shows, the region's performance in terms of GDP was better than the US.  and that China. Not enough. The initial figures were so low that required much larger growth than what was performed.

GDP per capita growth and catch up

| | GDP per capita. Average annual growth rate (%) | | | | | Difference in relation to G7 countries | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1950-1980 | 1981-1990 | 1991-2002 | 2003-2008 | 2009-2012 | 1950-1980 | 1981-1990 | 1991-2002 | 2003-2008 | 2009-2012 |
| Latin America and Caribe | 2,8 | -0,4 | 1,1 | 4,1 | 1,8 | -0,9 | -2,4 | -0,3 | 2,9 | 2,2 |
| U.S.A | 2,3 | 2,2 | 1,8 | 1,5 | -0,1 | -1,4 | 0,2 | 0,4 | 0,3 | 0,3 |
| China | 2,9 | 5,8 | 7,0 | 8,2 | 8,8 | -0,8 | 3,7 | 5,6 | 7,0 | 9,1 |
| G7 | 3,7 | 2,0 | 1,4 | 1,2 | -0,4 | | | | | |

**FIGURE 4 SOURCE: QUENAN AND VELUT, 2014**

On the other hand, ECLAC's policies should contribute to the creation of a large middle class in Latin America that would stimulate domestic demand and also contribute to breaking chronic dependence on foreign sources. It was about redefining the international division of labour so that Latin American countries could benefit from technological change that was intimately linked to industrialization (Bértola and Ocampo, 2013: 195).

And sure enough, changes came. As we said at the beginning of this chapter, during the twentieth century, the growth of the economy in Latin America was accompanied by enormous population growth. This feature became much more pronounced after 1930. According to a study by demographer Thomas Merrick (1998)  the population of Latin America quadrupled between 1930 and 1990.

Population in the main regions of the world (millions of inhabitants)

| | 1930 | 1990 | Ratio 1990/1930 |
|---|---|---|---|
| World | 2.008 | 5.292 | 2,64 |
| Latin America | 110 | 448 | 4,07 |
| North America | 134 | 276 | 2,06 |
| Europe | 540 | 813 | 1,51 |
| Africa | 155 | 642 | 4,14 |
| Asia | 1.069 | 3.113 | 2,91 |

**FIGURE 5 SOURCE: MERRICK, 1998**

Most of this growth was concentrated in urban centres, whose industrialization processes could not absorb labour at the necessary rate and could not provide the basic services, such as health, education, or housing, which inevitably gave rise to large pockets of poverty and inequality. Productive infrastructures were not developed properly, and cities grew disorderly.

Urban population in Latin America 1930-1980 (as a percentage of total)

| | 1930 | 1950 | 1980 |
|---|---|---|---|
| Latin America total | 17% | 41% | 65% |

**FIGURE 6 SOURCE: MERRICK 1998. THE OFFICIAL UN DEFINITION OF URBAN POPULATION IS CONSIDERED.**

We see, therefore, that in the description we have made of these policies sponsored by ECLAC, a very economistic vision of how to overcome the problem of an underdeveloped economic structure predominates, leaving aside the institutional aspect. Moreover, in a certain way the inherited patrimonial institutional framework was strengthened, since the recipients of funds for industrialization were generally the members of the traditional oligarchies of the countries.

The result was that institutional change, in the sense defined as progress towards an open access order, did not take place. Social inequalities did not decrease significantly, the supposed technical advances, now inward generated, were not accompanied by policies that expanded the fiscal base of the state and in general the “abduction" of fiscal resources and the state apparatus by particular interests

that accumulated political and economic power was maintained (Jarquín and Echebarría, 2006: 4). The elites did not feel the need to extend their prerogatives, namely access to political and economic resources to the other layers of the population. In fact, until well in to the 1980s, elites did not even manage to bring political stability in the region.

Now, if we remember, after independence, despite the fact that some elites were true advocates of the principles of liberal democracy, turbulences and patrimonial heritage brought about blockades that did not allow for a strong state formation and institutional change was restrained. In the twentieth century, despite a not spectacular, but at least reasonable economic growth, we need to have a look at the context to find an explanatory factor for once again a restrained institutional change.

The US has always been fearful of the Soviet threat. In fact, as early as the 1920s, short after the Mexican Revolution came to an end, the US saw Bolshevism approaching its southern border and spilling into Nicaragua (Knight, 2022; p.147). Certainly, the writings of the journalist John Reed at the time, did not help to calm down the mood[35]. Later, with the Cold War drenching the world, the interventions of the US in the region restrained any attempt of anything similar to a social democracy attain the power in the region.

Nevertheless, in the context of the Cold War, and sponsored by the presidency of John Fitzgerald Kennedy, an attempt was made in 1961 to implement a set of policies of economic, technical and educational assistance to the region in what was called the Alliance for Progress. In the words of its promoter, Arthur Schlesinger, it was a question of promoting "a middle class revolution where the processes of economic modernization carry the new urban middle class into power and produce, along with it, such necessities of modern technical society as constitutional government, honest public administration, a responsible party system, a rational land system, an efficient system of taxation" (Westad, 2005:

35 We are referring here to the accounts of the Soviet Revolution ('Ten Days that Shocked the World" and Mexican Revolution ('Insurgent Mexico'), written by the journalist and activist, that were fairly popular at that time.

35). We see taxation again as a core objective, but nor were these attempts sufficient.

However, looking at it from our perspective, and in view of what has been described, as a side effect, these industrialization processes supposed, with a very high social cost, an embryo for the change in the institutional framework, which is now experiencing Latin America.

As the years passed, as usually happens with any cycle, but even more if the funds are allocated from the state, financial resources were allocated to projects that were less and less productive and with low returns (Edwards, 2010: 63). At the country level, the law of diminishing marginal returns is also enforced.

We see, therefore, that after the first gap, the first attempt to implement a policy had mixed results and certainly did not achieve the evolution in the institutional framework.

Let's move on to the second group of active policies that were put in place after the second growth gap between Latin America and the West.

### 3.3.5 The Washington Consensus

As we have seen, the crisis unleashed in 1982 plunged Latin America into a deep depression and a situation of lack of self-confidence.

Of course, to tell the truth, it is not that the creditors, led by the US, had it very clear, as evidenced by the fact that until seven years later a plan was not proposed, the Brady plan, with signs of real applicability. That plan was accompanied by a series of economic policy instruments that were baptized by an economist working at the Peterson Institute for International Economics, John Williamson, as the Washington consensus[36].

36 The term was coined by this author in a paper for a conference organized by Peterson. Institute of International Economics in 1989. The author explains this very well in a lecture given by himself in

Contrary to the image that has been adamant in much of the literature on the subject, the so-called Washington consensus was not a set of conditions imposed by officials in Washington D.C. on a series of countries in the manner of a plate of lentils but was a compilation of the measures that this author observed that they were being demanded as a counterpart for the restructuring of Latin American debt. John Williamson's work in terms of compilation and systematization, by the use that has been given later, has been magnificent, however, the worst thing that could occur to him was to give it that name, since it has served to revile the policy instruments, described in it, as part of a US plan to control its "backyard".

The instruments in question are in many documents, but nevertheless, the best summary I have found in chapter 2 of a book edited by the author, published by the institute in which he worked (Williamson, 1990)

1. Fiscal discipline. Fiscal deficits, rigorously measured, that is, including regional entities and central banks, must be under control, so that they do not have to be financed by inflation, which precisely affects the poor more than the rich. The author proposes a primary surplus and a total deficit, albeit stabilized relative to GDP, in order to stimulate demand where needed. This is in line with what the European Union was considering at the time for the incipient monetary union that would emerge from the Maastricht treaty.

2. Public expenditure priorities. Redirect public spending priorities from sensitive areas, such as defence, administration or indiscriminate subsidies, to areas that favour the poorest layers, such as education and health, or areas that bring long-term economic returns such as infrastructure.

3. Tax reform. To achieve a broader tax base and thus be able to reduce marginal tax rates, without undermining the necessary progressivity of the tax.

Barcelona in September 2004 organized by the CIDOB Foundation, which can be read at http://www.piie.com/publications/papers/williamson0904-2.pdf. Last visited August 22, 2019.

4. Financial liberalization. The objective is that it is the market that sets the interest rates, although it may not be possible to achieve it from the first moment. At least, yes eliminate preferential interest rates for privileged groups and let the market work and banks determine interest rates for consumer loans, for example. The author already gave the desirable example of a Bangladeshi bank offering microcredit. In any case, this liberalisation must go hand in hand with good supervision.

5. Exchange rates. Countries need a competitive exchange rate to favour non-traditional exports. It would therefore be a question of not having overvalued currencies, but rather floating ones.

6. Liberalization of markets. In this case, the first step would be to eliminate import quotas and replace them with tariff measures that should ultimately also tend to fall.

7. Foreign direct investment. Barriers preventing the entry of foreign firms should be abolished, so that competition is cleaner. However, this does not mean capital account liberalization as is.

8. Privatization of public enterprises. Where appropriate, there is also room for restructuring companies, not including a change of hands. The author acknowledges that he is not in favour of privatization per se, but only in cases where increased competition is genuinely encouraged. In any case, it must be done by avoiding cases of corruption in the process.

9. Deregulation. Consisting of lowering barriers to entry for companies, but not abolishing environmental regulations or financial supervision. Simply that the rules of the game are the same for everyone

10. Proprietary Rights. Ensure that everyone has access to property rights at a reasonable cost.

The author describes these instruments as a mixture of prudent macroeconomic policies, with trade liberalization and market defence (Williamson, 1990: 7), in what constitute the three basic principles of the aforementioned instruments. Of course, it is not a neoliberal recipe book on how to manage the economy (just look at the two points related to fiscal policy), but rather has a clear Keynesian component, since it promotes the temporary existence of public deficits.

The great usefulness of this decalogue was that once systematized, it allowed the instruments to permeate the policies advocated by the large international financial institutions (mainly the World Bank and IMF) and national policies.

The reality is that each country in the region used these instruments its own way, in what meant, it is true, a reorientation of the economy towards the market. Certainly, the need for debt restructuring facilitated the application of this decalogue from the late 80s, but it was not a homogeneous process and was seasoned with some elements not exactly favourable to neoliberal theses: there was no labour reform, there was a strong impulse to regional economic integration and there were social spending policies that we will put numbers to later (Bértola and Ocampo, 2013: 265-269).

Certainly, this heterogeneity gave rise to different cases that are beyond the scope of this work. Take Bolivia as an example, where the application of the instruments of the Consensus in the late 80s and early 90s was in the "plate of lentils" mode, probably due to a particularly precarious institutional framework and the lack of a solid response on the Bolivian side of the table, which surely has had to do with the subsequent evolution of the country. Thus, between 1988 and 1996 in Bolivia, the share of indirect taxes in GDP increased by almost 5 points, while the gross operating surplus fell by about 4 points (del Campo, 2010: 215), in a typical case of restriction of the tax base, as we saw in the previous section.

All in all, macroeconomic stabilization was a key achievement during the 1990s. The combination of the policies described above eliminated the monetary financing of fiscal deficits, and allowed for the control of inflation that came to

single digits during the decade (Birdsall et al., 2010; p. 10). The Brady plan was a sort of starting point that through the initial sovereign debt reduction permitted the control of fiscal deficits in that period.

As far as our work is concerned, we believe that, unlike state-led industrialization policies, this set of instruments, seasoned with the national policies that each country applied, but respecting the three basic principles mentioned, are contributing to a change in the institutional framework. In particular, they are helping to depersonalize the exchange. To break the barriers imposed by the state of patrimonial character.

# IV. THE EFFECTS OF THE GREAT FINANCIAL CRISIS IN LATIN AMERICA. FOCUS ON ARGENTINA AND MEXICO

Once we have set the basis for our analysis, by settling a theoretical framework and reviewing the regional context, it is time to go to the specificities of our case study.

Following the insights into the main features of Capitalism in Latin America and once we have undertaken a contextual approach to the situation in Latin America prior to the crisis of 2008, in this part of the dissertation we will analyse what happened in the region during the financial crisis that busted in the first decade of the twenty first century, and which was formally triggered after the bankruptcy of Lehman Brothers bank on September 15, 2008.

For this reason, we have referred throughout these pages to the crisis of 2008, and we will continue to do so, although there is some literature that refers to 2007 as year one of the crisis, considering the collapse of Northern Rock, a UK bank, in September 2007, as the first signal of the financial crisis.

In this chapter, we will analyse in detail Latin America's performance compared to other crises in the twentieth century, and particularly to the big crisis of 1982. We will see that Latin America has behaved astonishingly well, and we will discuss that, although the first cause for this good performance may be found in the positive evolution of an array of economic parameters of a structural and conjunctural nature, the ultimate causes must be sought beyond economic discipline and lead us to a process of positive feedback between economic development, value change and institutional change, which in turn gives rise to an institutional framework compatible with, at the least, a mature limited access order.

For this analysis, as we said at the beginning of this dissertation, we will apply the historical-comparative method to highlight a series of actions and

circumstances that are novel in the great financial crisis of 2008 and that did not happen in previous crises, which will allow us to establish a causal relationship between those actions and the outcomes observed, notwithstanding the fact that in social sciences, your rarely find one single cause for a particular outcome, and that as we have repeatedly said, we live in a non-ergodic world, where human action and externalities allows for different outcomes, even if the initial endowments are similar.

It is important to notice that Latin America is not alone. There has been a vivid debate among economists around the world, about the decoupling of emerging economies from advanced economies, stemming from the fact that from 2003 to 2007 growth in emerging markets notably accelerated and the parenthesis of the global financial crisis of 2008 was very short for those economies, not only for the Latin American region, although this region outperformed the rest of the world in this period. According to some studies, and differentiating two groups of countries, namely industrial economies and emerging economies, since 1980, there has been convergence within the two groups of countries, but a decoupling between those two group of countries (Kose et al., 2008)

## 4.1 ARGENTINA AND MEXICO. REASONS FOR A COMPARATIVE APPROACH

Prior to embracing the analysis of our region's performance, we need to focus on the specific case studies that we have chosen. As we have said, Latin America is a large region, conformed by eighteen countries (not counting the Caribbean islands) and not all of them have performed the same way. Given the economic nature of our research question, we will take the region as a whole, but we will focus on the performance of Argentina and Mexico and compare their performance with the trends observed in the region as a whole.

Why Argentina and why Mexico. It is not on a whim that we have chosen these two countries. Let us outline the reasons why it is worth comparing these two countries.

According to our theoretical framework, the division of labour, which as we know since Adam Smith, is at the origin of a nation's wealth, is in fact specialization of knowledge (page 36). In a global market, that connects all countries with inputs and outputs, knowledge is what we call a non-tradable capability. Modernization theory also takes into account the importance of knowledge, although their view is more biased towards a broad definition of cultural values, that includes human capital (page 46).

If we are meant to find a reason for divergences between countries in this global market that the world is, where inputs and outputs are widely available, we should think of those factors that are not easily tradable, as it is the case of knowledge (North et al., 2009; p.251) (Hidalgo & Hausmann, 2009), that is to say, according to new institutional economics, we need to focus on the incentives structure that allows for an increase in the stock of knowledge to understand these differences between countries (page 36), and this structure is determined by the institutional framework (political structure, property rights structure and social structure).

There have been different attempts to capture the stock of knowledge of a country, but we will choose one that is coherent with our theoretical framework, and that is adapted to the countries in our region. Professor Ricardo Hausmann and his team at the Growth Laboratory of Harvard University have developed the economic complexity index (ECI), which, based on the assumptions above, aims at measuring the capabilities available in a country, by focusing on its export basket and the ubiquity of the products that the country exports[37]. If we take one particular product, the more specific knowledge it needs to be produced and the less common it is (i.e. the less countries that export that product), will add more complexity to the economy of a country (Hidalgo & Hausmann, 2009). In the terminology used in this research centre, they call the specific knowledge know-

37 We are referring at this point that there have been other intents to create such an index, notably the World Bank's knowledge Index, but was discontinued in 2012 and later replaced by the Global Knowledge Index, sponsored by UNPD and MBRF, but it only runs since 2017. See https://www.knowledge4all.com/gki Last visit May 1st, 2024

how or just capabilities[38]. The Growth Lab also offers a ranking of countries based on that economic index complexity.

For that matter, a common way to approach the analysis of Latin America is by looking into what the region trades with the rest of the world. A country with a non-diversified economy, in terms of products and in terms of partners is bound to suffer more in case of an external shock than a more diversified economy (ECLAC / CEPAL, 2021) (de la Torre & Ize, 2022), but it is not just diversify per se, but diversify in what a country can be good at, or otherwise countries may fall in a low-productivity trap, which in an open economy will be a cause to be driven out (Hausmann & Rodrik, 2003; p. 21).

Latin America is a geographically large and diverse region, with a common background, but also with some significant disparities. For instance, it is generally accepted that the region depends on natural resources, such as oils, minerals, and agricultural products, but if we observe the ranking of economic complexity of the region, a wide spectrum is at sight.

If we take year 2007, just before the great financial crisis, and in the midst of the commodities boom we can identify the countries that are more commodity dependent and those that are less dependent.

Figure 7 shows the ranking and the value of economic complexity index for that year. We can identify two big groups, Group in quadrant 1, with countries not so dependent on commodities, with Mexico, Brazil, Panama, Colombia, Uruguay, Costa Rica and Dominican Republic, and quadrant 3, with countries more dependent on commodities, with Argentina, Chile and the rest. Observing those two quadrants, and if we mix this data with GDP per capita and size of the economy, we can say that Mexico is the leading country in quadrant 1, whereas Argentina can be considered as the champion of quadrant 3.

38 See https://atlas.cid.harvard.edu/key-concepts for the definition of know-how and other key concepts used at the Growth Lab. Last seen on May 13th, 2024

| Country | 2007 Rank | ECI 2007 |
|---|---|---|
| Mexico | 17 | 1,346 |
| Brazil | 43 | 0,518 |
| Panama | 44 | 0,504 |
| Colombia | 56 | 0,186 |
| Uruguay | 57 | 0,138 |
| Costa Rica | 59 | 0,093 |
| Dominican Republic | 61 | 0,033 |
| El Salvador | 63 | -0,025 |
| Argentina | 64 | -0,045 |
| Guatemala | 68 | -0,163 |
| Chile | 70 | -0,193 |
| Peru | 90 | -0,489 |
| Paraguay | 91 | -0,490 |
| Honduras | 93 | -0,549 |
| Nicaragua | 102 | -0,713 |
| Ecuador | 105 | -0,754 |
| Venezuela | 106 | -0,788 |
| Bolivia | 112 | -0,923 |

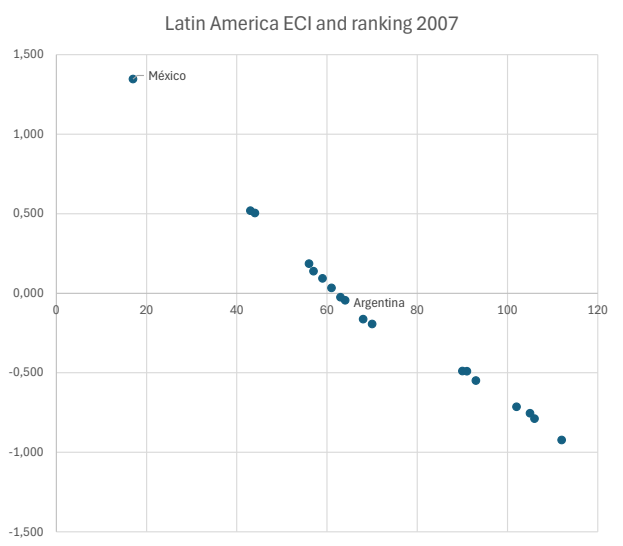


**FIGURE 7 ECONOMIC COMPLEXITY INDEX AND RANKING 2007. OWN ELABORATION WITH DATA FROM GROWTH LAB HARVARD UNIVERSITY HTTPS://ATLAS.CID.HARVARD.EDU/RANKINGS**

Both Argentina and Mexico are referential economies in the region, the second and the third economies in terms of GDP, and not too far in GDP per capita (see table on page 19 of the introduction). Both of them considered upper middle-income countries, but with some interesting differences as well as many commonalities.

The economic structure is certainly different. Argentina is very much biased by the importance of large-scale agriculture, as a global provider of soybeans and other agricultural produce, whereas Mexico is biased by its proximity to the USA and its membership in the North America Free Trade Agreement (NAFTA), now called United States-Mexico-Canada Agreement (USMCA). In this work, we will refer to this agreement by its old name NAFTA, for simplicity.

Following the Growth Lab, we can further explore the complexity of a particular economy[39]. It shows with visual tools the composition of the export and import baskets of a particular country and it ranks countries accordingly. Rankings of

39 See https://atlas.cid.harvard.edu/, last visit March 18th, 2023

complexity exist in other organizations, but the visual force of Harvard's project is unique.

If we look at figure 8 for Argentina in year 2020, we see the predominance of brownish colours, indicating a low complexity economy, in which non elaborated agricultural products, are preponderant in exports, notably soybeans in different formats, corn or beef. The greenish colours, which indicate more complexity, are composed by motor vehicles and medicaments. The overall economic complexity index is -0.22 and Argentina ranks only 75th ($64^{th}$ in 2007) in the economic complexity index ranking, whereas in terms of GDP, Argentina ranks among the 20 first economies in the world. The discrepancy is notorious.

ARGENTINA EXPORT COMPLEXITY 2020

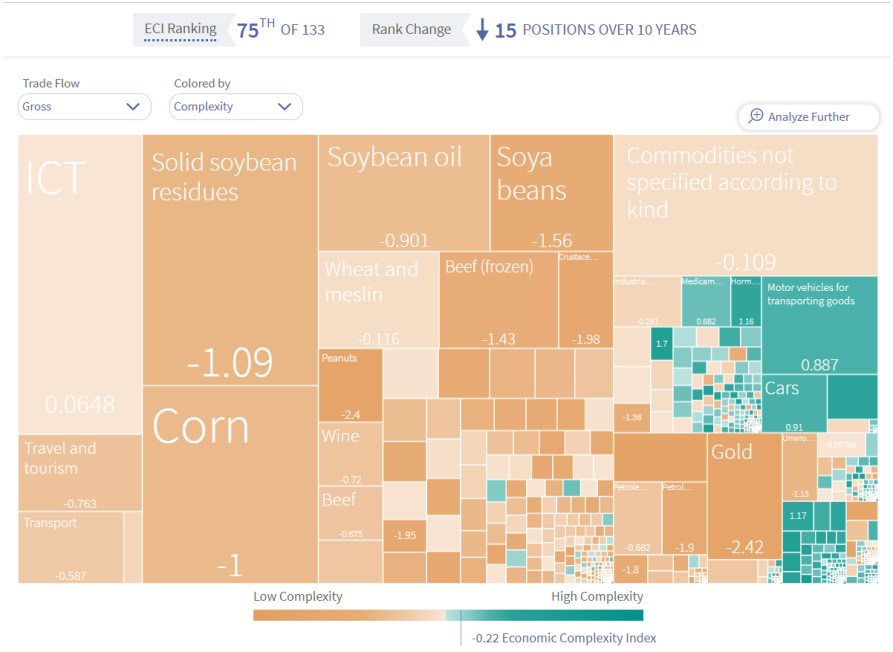


**FIGURE 8 SOURCE ATLAS OF ECONOMIC COMPLEXITY HARVARD UNIVERSITY**

MEXICO EXPORT COMPLEXITY 2020

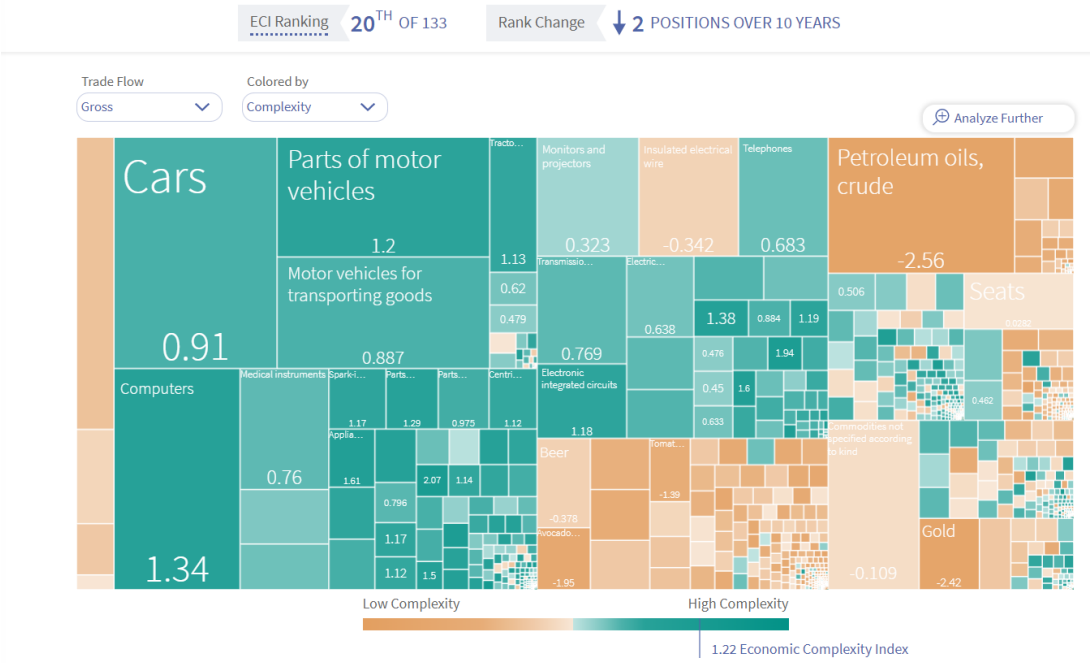


FIGURE 9 SOURCE ATLAS OF ECONOMIC COMPLEXITY HARVARD UNIVERSITY

Mexico's visual map for year 2020, figure 9, shows a more greenish tone than Argentina, indicating a much more complex economy, where the exports are dominated by cars and its components, computers or medical instruments. Mexico's economic complexity index is +1,22 and ranks 20th in the economic complexity index ranking (17th in 2007), much more consistent with its position in the world economy. But despite this apparent complexity, which in principle gives a big growth potential for Mexico, there is an overwhelming dependency of Mexican economy on the United States. Data from year 2020 is shown in figure 10. 77.52% of exports go to the United States. The second partner is Canada, with only 4.31% of exports. Results in previous years do not differ much from this, and the first decade of the twenty first century was even more critical, with over 80% of exports going to the USA. We can say that in fact NAFTA is an agreement between Mexico and the USA and makes Mexican economy vulnerable to a crisis in its northern neighbour.

MEXICO: EXPORTS BY COUNTRY. YEAR 2020

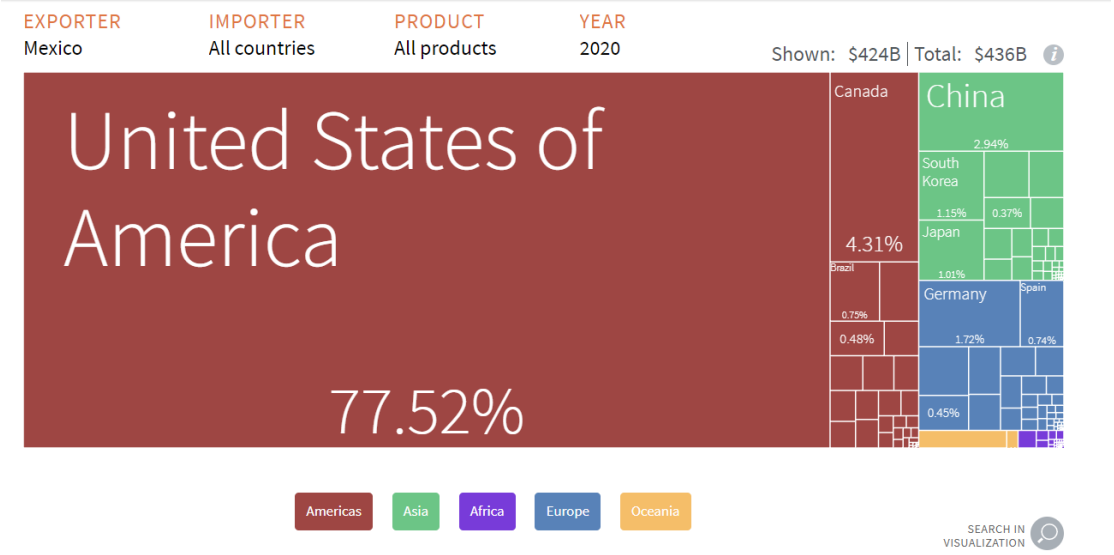


FIGURE 10 SOURCE: ATLAS OF ECONOMIC COMPLEXITY. HARVARD UNIVERSITY

The case of Argentina is not so critical, with exports much more diversified geographically, as we observe in figure 11.

**Relevence of fiscal revenues from commodities 2018**
**Percetange of total fiscal revenues**

| | Export taxes | Oil and gas extraction | Total | Total fiscal revenues | % Fiscal Revenues 2018 |
|---|---|---|---|---|---|
| Argentina (Mill ARS) | 634.800 | 75.350 | 710.150 | 4.203.894 | **16,9%** |
| México (Mill MXN) | | 983.822 | 983.822 | 3.582.463 | **27,5%** |

FIGURE 11 SOURCE: OWN ELABORATION FROM CEPAL/ECLAC REVENUE STATISTICS 2018

Nevertheless, in both countries, tax revenues depend very much on commodity exports. Even though oil exports are not so important in Mexico, a large part of the fiscal revenues come from oil exports, through non-tax revenues from PEMEX, and in the case of Argentina, export taxes on primary products represent a large source of revenue for the government. See figure 10 above

ARGENTINA: EXPORTS BY COUNTRY. YEAR 2020

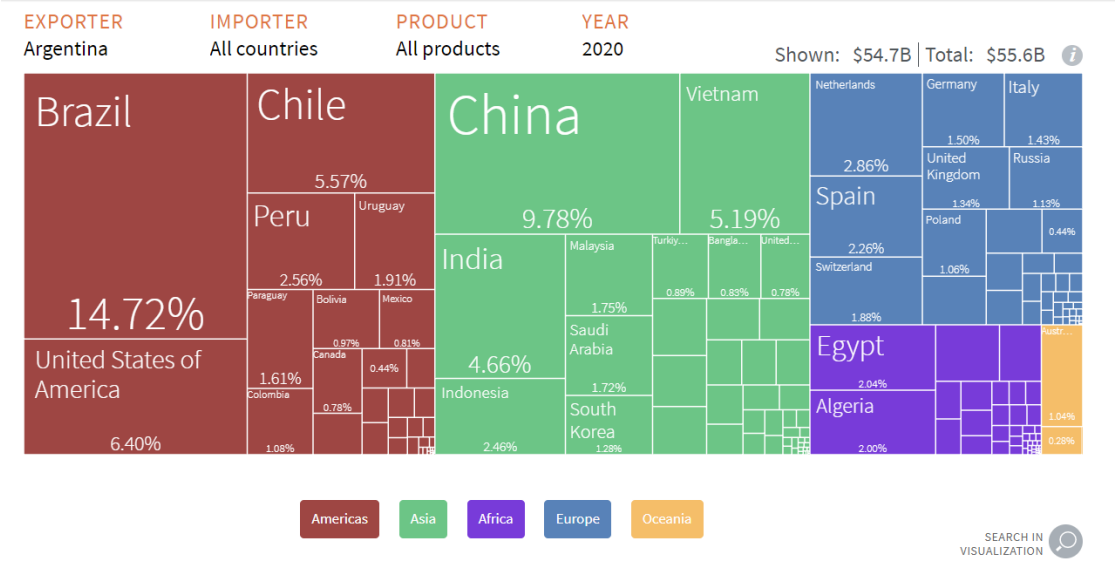


**FIGURE 12 SOURCE: ATLAS OF ECONOMIC COMPLEXITY. HARVARD UNIVERSITY**

To complete the panorama, if we look at the other two member countries of the NAFTA agreement, we observe that Canada (figure 12) is also very much dependent on exports to the USA, and that does not hamper the fact that Canada is a well-developed economy. It is not so much what and where you export, but how you export, and the productivity of the economy.

Whereas the United States of America (figure 13) has a clearly more diversified scope of customers for their exports.

CANADA: EXPORTS BY COUNTRY. YEAR 2020

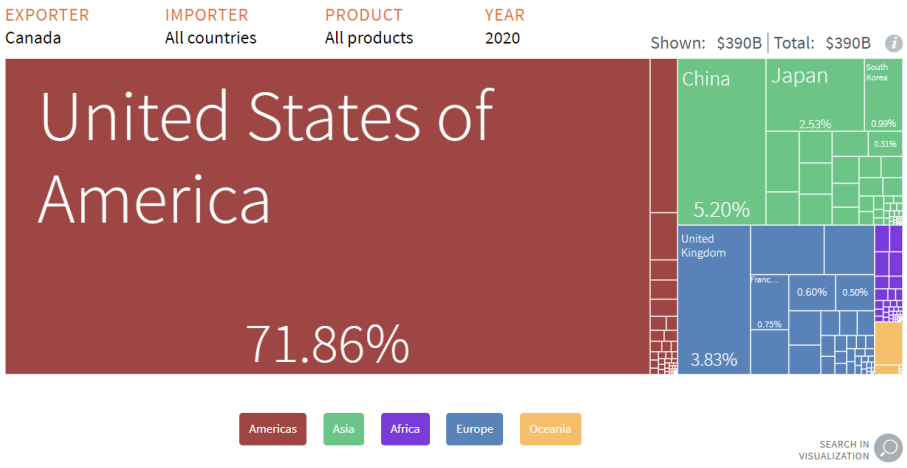


**FIGURE 13 SOURCE: ATLAS OF ECONOMIC COMPLEXITY. HARVARD UNIVERSITY**

UNITED STATES OF AMERICA: EXPORTS BY COUNTRY. YEAR 2020

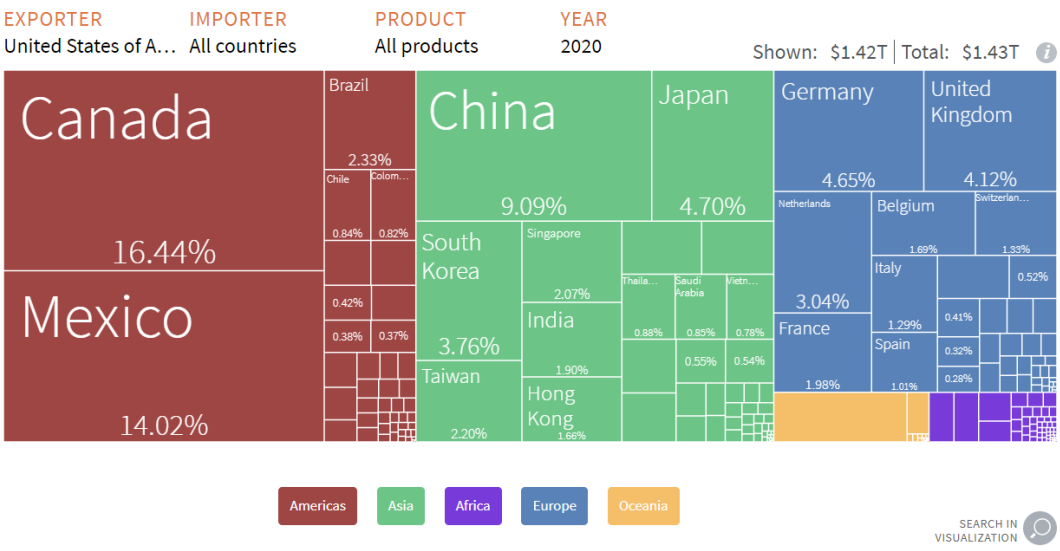


**FIGURE 14 SOURCE: ATLAS OF ECONOMIC COMPLEXITY. HARVARD UNIVERSITY**

Let us not forget that we want to go beyond economic variables and try to see through political and institutional dependent variables what was different in previous crises from the one that took place in 2008, so let us look at the political side.

Looking again at the year prior to the onset of the crisis, we see that the EIU index places Argentina and Mexico quite close to each other (refer to appendix, page 285)[40]. This suggests that their institutional development is relatively similar. Let us explore these aspects in more detail.

From the political point of view, both Argentina and Mexico have a tradition of strong and long-life political parties, even if in Mexico, the current party in government, MORENA, is of recent creation, it is in fact a split from former PRD, which was in turn a split from PRI. The main opposition party in Mexico, PAN, is also an old actor in the country. All parties have presence in the institutions at different government levels, and they govern states and municipalities. Argentina is dominated by Partido Justicialista, founded in 1947, and the Unión Cívica

40 Note that EIU Democracy index does not exists for year 2007, and therefore we have taken year 2006.

Radical, that took part in the coalition “Juntos por el Cambio” of President Mauricio Macri in 2015.

Similarly, trade unions are important actors in both countries, although in Mexico the unions tend to be organised by sectors, and in Argentina tend to be more class unions, they all have closed links with the political parties that have shaped politics in the twentieth century.

Both Argentina and Mexico are constitutionally federal states, with provincial or state executives and legislatures, which makes the levels and functions of government similar in both cases.

In terms of human capital, which is certainly critical for sustainable economic growth, both countries have a similar network of intermediate and high education organizations, with maybe a better geographical diversification in Argentina.

If we take corruption as an element of comparison, the perception index, according to transparency international[41] in 2021, offers a score of 38 for Argentina and 31 for Mexico, which ranks both countries in the middle of a table out of 180 countries analysed.

Finally, for the purpose of the case study, they are both part of the World Values Survey since the first wave in 1981, which gives us a good range for comparison in the last section of this chapter.

In summary, Argentina can be seen as a key representative of commodity-exporting nations, holding the status of a major economy. In contrast, Mexico represents countries that are less reliant on commodities. However, for the sake of comparative analysis, both Argentina, Mexico, and most Latin American countries were relatively closed in terms of institutional development.

41 See https://www.transparency.org/en/cpi/2021 last visit March 22, 2023

While we cannot fully generalize across all Latin American countries, Argentina and Mexico serve as strong reference points for the continent.

## 4.2 THE GREAT FINANCIAL CRISIS OF 2008. BRIEF NOTES

The market system is based on trust, and a crisis starts when trust is broken, or more specifically, when economic actors realize that many outstanding contracts cannot and will not be fulfilled (Heymann & Leijonhufvud, 2013: 8). Depending on the nature of the contracts, the crisis can be financial if the contracts involved are basically loans or deposits between financial entities and other economic actors. We say that we are facing a debt crisis or country default, when the contracts are governmental, i.e., the government does not fulfil its obligations with its debtors, the holders of bonds and other debt instruments. It is very common that debt crises are linked to international payments, when bond's holders are foreign, or multilateral organisms like the IMF.

In the typical sequence of a financial crisis, the unfulfillment of an increasing number of contracts, drives to the general perception that debts are no longer being paid back in due time, which reflects a reversal of expectations: what we thought was going to have a higher value, is no longer worth it, because we find no buyer for our asset at the price we had in mind. The assets price will depreciate, and investors will try to run away from those assets at whatever the price, and hence a vicious spiral of assets prices depreciation takes place.

This is the basic pattern of a financial crisis, no more, no less. This pattern is repeated in all financial crises and the difference only lies on the asset that is behind the crisis, which is technically called the underlying asset.

When a crisis originates in a central country of the capitalist system and on a currency widely used in trade such as the US dollar, the crisis quickly extends globality.

The renowned economist John K. Galbraith, in a concise yet eloquent work, highlighted the common features of speculative processes and the subsequent crises they have historically triggered (Galbraith, 1991; pp.27-35).One prevalent

trait is the belief in an element that supposedly reduces risk, often a perceived innovation in the financial sector.

The late Hyman Minsky, probably the most respected expert on financial crises, adds another factor that intensifies risk: during economic booms, such as the one leading to the housing bubble, non-government debt surges significantly, often resembling a Ponzi scheme. This situation is compounded by large financial institutions' belief that authorities will bail them out because they are too big to fail, creating a false sense of security—a phenomenon known as moral hazard[42](Minsky, 1986; p. 199).

In the case of the 2008 crisis, we reckon that it was no different, as authors Reinhart and Rogoff assert in the influential work, that also inspired, albeit for opposing reasons, the title of this dissertation (Reinhart & Rogoff, 2009)[43].

In effect, in the great financial crisis of 2008, we had both elements present. The *novelty* that reduced the risks was “securitized mortgage”, that was later known as the subprime mortgage market, which distributed mortgage risk among a multitude of investors and contributed to the price increase of underlying assets (real estate), and also helped by low interest rates. But in addition, the subprime securitization programmes were promoted by the U.S. Government so that minority groups, which until then had not had access to housing ownership, could now own one, thus improving social cohesion (Greenspan, 2007: 230) Greenspan himself claims that the benefits of a broader base of homeowners make it worth running the risk of generating a housing bubble, implicitly acknowledging being the instigator of the real estate boom of the 2000s. This fact allowed for some financial actors to play in the market as if they had a net underneath that was unbreakable, a clear case of moral hazard.

42 While reviewing this section, we are experiencing this dilemma once again, after the collapse of Silicon Valley Bank. See for example an article in the Financial Times “The policy compromises needed to resolve the SVB implosion” https://www.ft.com/content/5a723f25-0dd3-4cff-b511-b01d7467a4ba

43 Reinhart and Rogoff are putting the focus on the crisis and we are putting the focus on the region’s performance, and hence the reasons are opposing,

Moreover, the housing bubble was not only driven by demand, but also by an extra flow of money that after the breakout of the dotcom bubble in year 2000, turned into real estate as an alternative to the stock market (Justo & Santarcángelo, 2016; p. 6)

Maybe the securitization programme itself was not extraordinarily new, but its spread to the global financial markets was excessive, and it did not allow for financial entities to realize that since mid-2007, there was a growing number of debt contracts, linked to mortgages, unfulfilled, until it was too late, and Lehman Brothers, a bank that was very much engaged in the subprime mortgage market, could not obtained liquidity from the interbank credit market and collapsed (Tooze, 2018: 153-170). The credit crunch extended rapidly to all sectors in the economy, causing a slump in demand. Households were afraid of spending and besides, they did not find credit for it, and therefore the aggregate demand declined dramatically. As a consequence, industrial output deteriorated, unemployment rose and the doom loop made the rest, pervading the economic activity.

Why the US authorities did not bailout Lehman Brothers, remains an open question, especially since another smaller bank, Bear Stearns, was bailed out a few months earlier (March 2008) by propitiating its sale to J.P. Morgan, with the financial help of the Federal Reserve. Some argue that Bear Stearns' bailout sent a bad signal to other financial institutions that had a similar exposure to the subprime mortgages and did not take any action, just thinking that they would be rescued[44]. Some others think that the big misstep was letting Lehman go bankrupt. The shock waves through financial markets spread very quickly, and just a few days after Lehman's collapse, authorities decided to bail out the insurance giant AIG, but not through a private intermediary. In this case the intervention was direct, and the New York Fed put a credit facility of up to USD 85 bn and took a large stake of the company. AIG was certainly too big to fail,

44 See for example David Skeel https://www.brookings.edu/research/history-credits-lehman-brothers-collapse-for-the-2008-financial-crisis-heres-why-that-narrative-is-wrong/#:~:text=In%20the%20years%20since%20the,the%20Fed's%20emergency%20lending%20power. Last access Nov 25, 2022

and systemic stability was key, but the improvisations in the Fed's course of action did not help much.

The point is that the big financial crisis of 2008 has not been essentially different from previous crises, albeit we must reckon that this one has been truly global, affecting financial institutions all over the world, from the United States to Spain, through the United Kingdom, The Netherlands or Australia.

Financial institutions in the rest of the world suffered. Their financial statements also showed large exposure to mortgages and subprime schemes in particular, and mistrust spread to other assets as well, notably government debt of Southern European countries among others. The global crisis was served, and it meant to be painful, very painful. Just to give an idea of how significant it was for financial sector, let us remark that the number of savings banks in Spain was forty-five before the crisis, and it was reduced to nine after the crisis (Otero-Iglesias et al., 2016), most of them merged and transformed into regular commercial banks. In the case of Spain, it was a slow cooked crisis for the financial segment of savings banks.

This explanation of the immediate causes of the crisis is widely accepted by most analysts. However, various schools of economic thought emphasize different underlying or concurrent causes. Neoclassical and post-Keynesian economists agree on the issues of inadequate regulation and faulty incentive structures. In contrast, Marxist approaches typically focus on the fictitious financialization of the economy or the purported tendency of the rate of profit to fall (Justo & Santarcángelo, 2016; pp 13-18) (Mariña Flores & Cámara Izquierdo, 2016; p.170). Let us now look at the asset at the heart of the crisis: real estate. The relevance of real estate as an asset is critical to understand how important a crisis originated in its value may be in a particular region. There is a very interesting research undertaken by the global real estate company Savills, which shows a breakdown of the residential value compared to population in different regions of the world (Savills, 2016). We see that in the case of North America (meaning USA and Canada), a 5% of the population holds 21% of the total residential value of the world, and for Europe the numbers are 11% of the population for 24% of the

total residential value. These huge imbalances in the USA and Europe, help explain why a crisis in this sector was so overwhelmingly significant in those regions. See figure 14 below for details in other regions of the world.

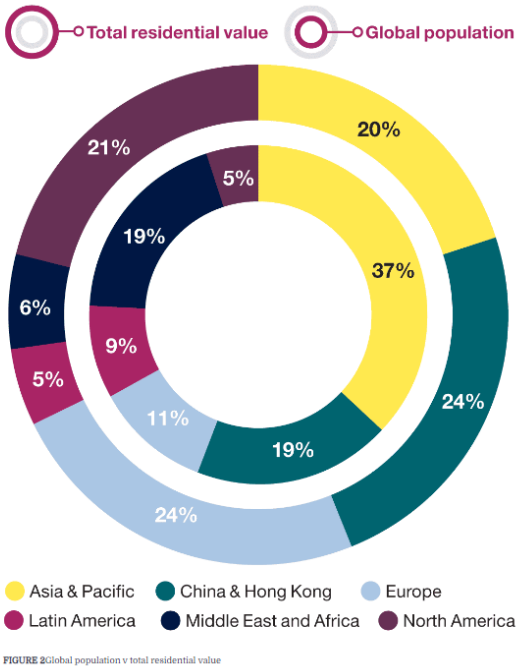


FIGURE 15: GLOBAL POPULATION VS TOTAL RESIDENTIAL VALUE. SOURCE: SAVILLS RESEARCH / OXFORD ECONOMICS

In Latin America, 9% of world population holds 5% of the total residential value, and therefore, *sensu contrario*, real estate assets are not under such pressure and the effects on its values are not so harmful. As we have been saying throughout this work, it has not been a catastrophe for Latin America. In fact, none of the financial institutions affected are from that region. Neither there have been serious interest rate tensions, nor currency devaluations and nor inflationary rallies. We will see this in detail now.

Therefore, we have a first reason here to explain why contagion through the devaluation of real estate assets could not be so relevant for Latin America and particularly for its financial sector, but the surprise came later, when other transmission channels and variables of the regional economy that were critical in other crises, showed strength and resilience as ever before.

### 4.2.1 Latin America. Some common features in the period around the burst of the crisis

Let us review now what other features were common in Latin America, apart from this relevant aspect of real estate.

Just before the crisis erupted, Professor Sebastian Edwards, a renowned expert in Latin American crises previously mentioned in this work, authored an insightful article for the National Bureau of Economic Research. In this piece, he demonstrated that international trade openness, measured as the ratio of imports and exports to GDP, not only promotes long-term growth, but also help countries better cope with external crises (Edwards, 2008; p.20). As we saw, in section 3.3.5 above, one of the pillars of the policies implemented in the 1990s, was trade openness, and chart 16 below shows the evolution of trade openness for the region since 1980. The clear upward trend from around 1992 is a signal of the enormous progress of the region in trade openness. Mexico with around 58% of trade to GDP in year 2007 (above the average), whereas Argentina had a ratio of around 41% (below the average). We also note the big fall between 2008 and 2009 due to the crisis.

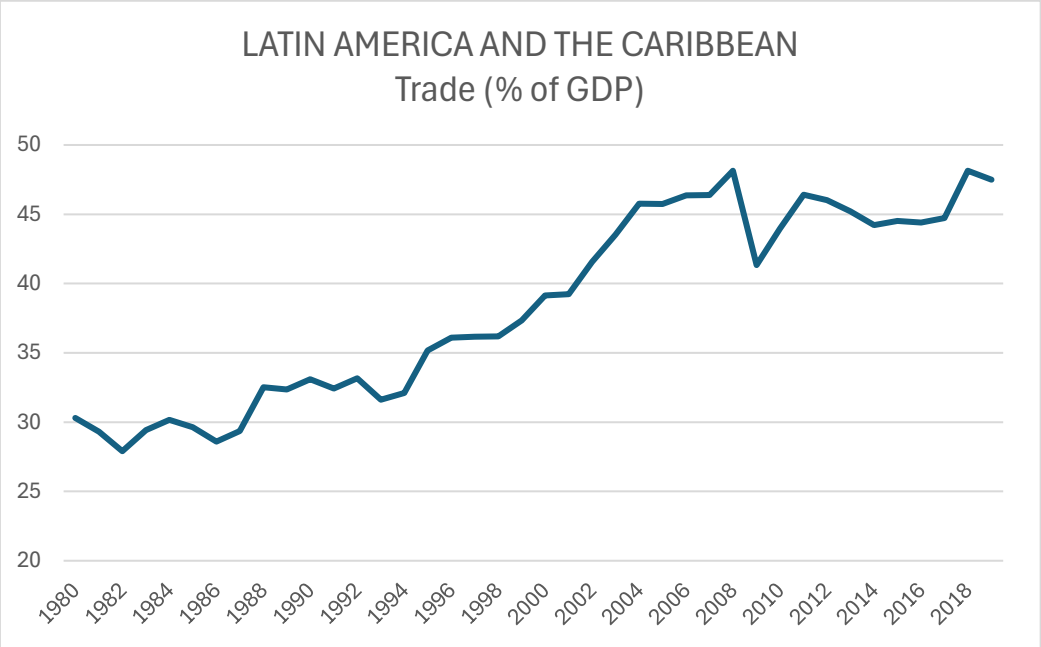


**CHART 16** SOURCE: OWN ELABORATION WITH DATA FROM WORLD BANK AND OECD THROUGH HTTPS://OURWORLDINDATA.ORG/GRAPHER/TRADE-AS-SHARE-OF-GDP?TIME=2021

On the financial side, Latin American banks did not have toxic assets as it was the case of European or North American banks, and hence, the financial organizations in the regions were healthier than in the rest of the Western world, and they did not require assistance from their governments. Most interestingly, not only were the balance sheets healthier, but the financial system also demonstrated far fewer vulnerabilities in response to the sudden credit crunch of 2008. This contrasts with the debt crisis of 1982 (see page 77) and is largely attributed to the policies implemented during the 1990s (Gallego et al., 2010; p.16) (Porzecanski, 2009; p.20) (Birdsall et al., 2010; p. 12).

This financial strength, in turn, is reflected by surge of large international conglomerates (the equivalent to multilatinas that we will see below, but in the financial sector) that has raised concerns about the systemic risk of some of those entities, for which the region has a much better foundation than two decades ago (Kleinow et al., 2016 pp. 424-426).

In an international crisis, studying the transmission channels through which effects spread between countries is crucial. Considering a financial crisis in country A, the transmission channels to country B can be financial or real.(Gallego et al., 2010; p.30). Financial transmission can be direct if toxic assets are present in country B, or indirect through asset prices (such as stock markets), money markets (for instance, risk premiums), or capital flows. Additionally, second-round effects, which particularly impact credit quality, are also part of financial transmission. The real channel involves either domestic demand or net exports.

As we mentioned above, Latin American banks did not practically have toxic assets, and therefore, the financial transmission channel worked indirectly, but the bail out of Bear Stearns in March 2008 went unnoticed for Latin American financial markets (Porzecanski, 2009; p.5) (Gallego et al., 2010; p.31), and it was only the collapse of Lehman Brothers in September that brought turmoil to the region, including the stock markets, but interestingly, following a study on the spillover effects on the stock markets (Hwang, 2014; p.314), if we focus on market

capitalization, except Argentina, the big stock markets in the region have all recovered by 2010, which was not the case of the USA.

Market capitalization (US$ bn). For USA US$ tn

| Country | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Argentina | 79,7 | 86,7 | 52,3 | 48,9 | 63,9 |
| Brazil | 711 | 1370 | 589 | 1167 | 1545 |
| Chile | 175 | 213 | 132 | 210 | 342 |
| México | 348 | 398 | 233 | 341 | 454 |
| USA | 13,77 | 12,95 | 9,96 | 11,73 | 13,12 |

**FIGURE 17 SOURCE HWANG, 2014, EXCEPT FOR USA, DATA FROM YCHARTS.COM**

Figure 17 above shows that the stock market was still growing in 2007, contrary to the USA, and the recovery came faster for those countries (except for Argentina) than in the USA.

The stock market in 2007 was reflecting the extraordinary growth that the region was enjoying since around 2003, partly fuelled by the commodity boom (more about this in section 5.1.1), but this time, countries in the region were able to break up the cyclicality of fiscal policies. The policies implemented during the 1990s, were yielding in this period of growth, in the form of accumulation of international reserves, prudent fiscal policies, and competitive exchange rates (de Gregorio, 2014; loc 388). As we will see below (section 5.1.2), it was the first time that countries managed to break with the cyclicality of fiscal policies in a commodity price boom, reducing poverty and inequality in the region, as we will see in section 4.3.5 (Sánchez-Ancochea, 2021b), reducing at that time the vulnerability of the middle class.

This set of policies reinforced the position of the countries when facing the sudden stop in trade and credit that the crisis brought about and neutralized the financial transmission channel. In general, countries could follow a moderate countercyclical fiscal policy, also during the crisis, albeit with some limitations and variations between countries, but with packages amounting to around 1,3% of

GDP (Gallego et al., 2010; p.51), without undermining the confidence of investors (Porzecanski, 2009; p.26).

Chart 16 above is a proof that the commercial channel was the transmission chain of the crisis this time, but it did not have a catastrophic effect on the financial side.

We can therefore affirm, that by the time the crisis busted in 2008, the panorama in the region was that of an strengthen position in the monetary and fiscal front, and as we will see below, when analysing the dependent variables, robust growth, relatively low inflation, confidence of investors and a reduction of inequality.

Let us focus now on our two countries of interest.

### 4.2.2 Argentina and Mexico in the period just before the burst of the crisis

Between year 2000 and year 2001, Argentina suffered the worst of crises yet, that ended up with the “corralito” in December 2001. We are not going to explain the reasons here, but the fact that the currency was fixed to the US dollar at a value of one US dollar to one Argentine peso was certainly one of the reasons behind. You can peg your currency to another one, but then you need that productivity also pairs the strong currency.

The crisis of 2000 in Argentina is a vivid example of what a financial crisis meant in Latin America in the twentieth century. A slump in output, devaluation of the Argentine peso, inflation, high interest rates and political turmoil, with scenes like a president of the republic fleeing in a helicopter from the presidential residence.

Later, political stability came after the elections of April 2003, and the economy recovered under the government of Nestor Kirchner. A period of sustained growth followed, with GDP per capita increasing at an average of 6,87% until 2008. On the demand side, the share of gross domestic fixed capital formation had a very important increase between those years, from 11,9% of GDP in 2002 to 19% of

GDP in 2008, and on the supply side, the dynamism of manufacturing was very relevant, in consonance with the increase in fix investment (figure 18, below).

**Argentina. Gross domestic Capital Formation and Industry value added**

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| Gross fixed capital formation (% of GDP) | 11,96 | 15,14 | 15,89 | 17,35 | 18,33 | 19,52 | 19,01 |
| Industry (including construction), value added (annual % growth) | -11,36 | 14,16 | 10,82 | 6,53 | 8,66 | 6,03 | 3,07 |

**FIGURE 18 SOURCE DATA.WORLDBANK.ORG INDICATORS NE.GDI.FTOT.ZS AND NV.IND.TOTL.KD.ZG**

This preponderance of the manufacturing sector is highlighted by different authors (Santarcángelo & Perrone, 2016; p.37), although we see in the table that in 2008 it was losing pace, and a certain reprimarization of the economy took place. Nonetheless, some changes were there to stay, as we will see when analysing the export basket in section 5.1.1.

We can acknowledge that Argentina experienced an outstanding growth, in the five years prior to the crisis, with accumulation of international reserves and the implementation of some countercyclical policies both in the monetary and the fiscal fronts (Abeles, 2012; p. 75), notably with the reform of the pension system (details in section 5.2.1),but by the end of 2008, some shadows were menacing the future: the inflation rate was climbing, due to the rising international commodity prices, the appreciation of the real exchange rate tended to make exports less competitive in world markets and the was leaving less room for effective fiscal policy during the crisis itself.

The case of Mexico is less stimulating. The fact that the last big crisis before the one we are studying detonated in 1997-1998, and that Mexico is a signatory of the North American Free Trade Agreement (NAFTA) since 1994 has brought stabilizing effects to the Mexican economy that by year 2008 had left the roller-coaster economic modality.

Under the NAFTA agreement, the integration with Canada and, as we have seen above, especially with the USA meant a boost for exports, and a progressive decrease of oil exports as a percentage of total exports, from around 10% in 2000 to around 5% in 2019, and in this year, manufactured products of medium or high technology, were around 78% of total exports, according to the data in Harvard University Growth Lab.

Moreover, in 2000, for the first time in seventy-one years, the Partido Revolucionario Institucional (PRI) lost the presidency in favour of Vicente Fox. That did not mean a big change in economic policy, and GDP per capita increased at a pace of around 2.2% until 2008. If we look at the domestic fixed investment, we see that in this case, contrary to what happened in Argentina, the figures remained flat during those years, and the growth in Industry value added was much more modest that in the case of Argentina. See figure 19 below.

**Mexico. Gross domestic Capital Formation and Industry value added**

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| Gross fixed capital formation (% of GDP) | 19,27 | 19,78 | 20,48 | 20,70 | 21,54 | 21,94 | 23,16 |
| Industry (including construction), value added (annual % growth) | -1,50 | 1,76 | 3,85 | 2,15 | 4,13 | 0,93 | -1,05 |

**FIGURE 19 SOURCE DATA.WORLDBANK.ORG INDICATORS NE.GDI.FTOT.ZS AND NV.IND.TOTL.KD.ZG**

It is important to notice that just two years before the bust of the crisis, the Mexican Congress passed the Law for Fiscal Responsibility to impose the obligation of neutral fiscal balance. According to this law, a fiscal deficit could only be allowed in case of extraordinary macroeconomic circumstances (Ley Federal de Presupuesto y Responsabilidad Hacendaria – March 2006), but the government never managed to correct the two main flaws of the country's fiscal structure, weak tax revenues and tax dependence on oil exports (Moreno-Brid & Padilla-Pérez, 2012).

The countercyclical policies were more modest in Mexico than in Argentina, and they were implemented rather in the monetary front than in the fiscal front in the

years prior to the crisis, but that is coherent with the fact that growth was also more modest than in Argentina. Despite this, some authors affirm that 2009 was the first year in decades that Mexico implemented this sort of policies (Moreno-Brid & Padilla-Pérez, 2012; p. 107).

Other authors offer a Marxist view (Mariña Flores & Cámara Izquierdo, 2016) and although they reckon that the reforms of the 1990s allowed for the general rate of profit to increase up to the mid-2000s, they put the emphasis on the fall hence after, and on the dependency on the US market, which is true and it is a risk, but as we saw above, that is also the case of Canada, and they are managing that risk conveniently.

## 4.3 LATIN AMERICA. PERFORMANCE DURING THE CRISIS. THE DEPENDENT VARIABLES

It is time now to analyse our claim that Latin America performed well during the great 2008 financial crisis. We will overlook Latin America globally and particularly Mexico and Argentina.

For the analysis of Latin America's behaviour during the crisis, we are going to examine several economic indicators that have traditionally behaved badly on other occasions and on this occasion have had a markedly good performance.

### 4.3.1 Gross Domestic Product Per Capita

Gross domestic product is a measure of the economic growth of a country, and its growth reflects an improvement of the economic performance. To make it clear, let us state at this point that when we talk of economic growth, we mean an outward shift of a country’s production possibility frontier (Krugman et al., 2015: 126), and that this growth can be a consequence of an increase in the country’s resources or a consequence of improvements in the efficiency, or a combination of both of them.

We already know that this measure does not necessarily define the well-being of a country but let us not forget our research question. We are not looking at well-being country by country, but simply that the region's behaviour has been clearly better than on other occasions. Moreover, on the other hand, while it is true that GDP alone does not define a country's well-being, if it is another defining component, which is part of more complex indicators, it is worth reminding here what Professor Paul Collier used to remark: “growth is not a cure-all, but lack of growth is a kill-all”[45]

For comparison purposes, we will take the standard definition of GDP per capita and its measure in constant 2010 USD. We usually prefer the purchasing power parity for international comparisons, but the World Bank provides this data only from 1990, which would leave the debt crisis of 1982 out of the range.

We have chosen the three global financial crisis that occurred since the last quarter of the twentieth century, namely the debt crisis that originated precisely in Latin America, as we have seen in chapter III of this dissertation. The Asian financial crisis, that originated in Thailand and extended to the world in 1998, and the great financial crisis of 2008, that originated, as we have seen, in the United States. There have certainly been more crises during this period, but the three chosen are of financial nature, and, as we said, their effects were global. For instance, the crisis 0f 1994, originated in Mexico was also of financial nature, but its effects were restricted to Latin America, and not even to all countries in the region.

Let us see now how Latin America behaved during those three crises. To do that, we have equalized the GDP per capita at the beginning of each crisis, setting index 100 specifically on the year before the crisis triggered in each case, so that we have a pre-crisis reference to compare. We have put the evolution in a single chart, that spans for nine years, which in the case of the last of the crises, takes us to year 2015, and that is a convenient time-period to see whether the economy

45 This is a famous sentence by one of the most prominent experts in development economics. The sentence is a reference in the literature. See for example https://fee.org/articles/the-miracle-of-industrialization/ Last visit 23rd Dec 2022

recovered the pre-crisis level, without overlapping years for the different periods considered.

Chart 20 shows this comparison of the evolution of GDP per capita of Latin America in the three above mentioned crises. The chart is certainly remarkable. In the first crisis, Latin America was already experiencing hard times the year before the crisis triggered, and the evolution was downward for a time to slowly recover afterwards, but GDP could not recover the pre-crisis level in the nine years shown. No wonder why this crisis was labelled the lost decade for Latin America.

In the crisis of 1998, Latin America, was experiencing some growth before the crisis, but it was brought to a sudden stop in 1998, and sluggish growth came after. GDP per capita remained at a similar level as the pre-crisis reference, and it was not until year 7 that an upward trend came back This is called the lost half-decade.

In the last crisis, Latin America was experiencing a robust growth before the crisis, which came to a sudden and pronounced stop in year 2008, but the upward trend was soon recovered, and the pre-crisis levelled was overcome in 2010. Only two years after the crisis (year four in the chart).

We insist, that for each crisis, year 1 is the year before the crisis triggered, and hence, for the crisis of 1982, year 1 is 1981, for the crisis of 1998, year 1 is 1997 and for the great financial crisis, year 1 is 2007. This applies for chart 20, chart 23 and chart 24 below.

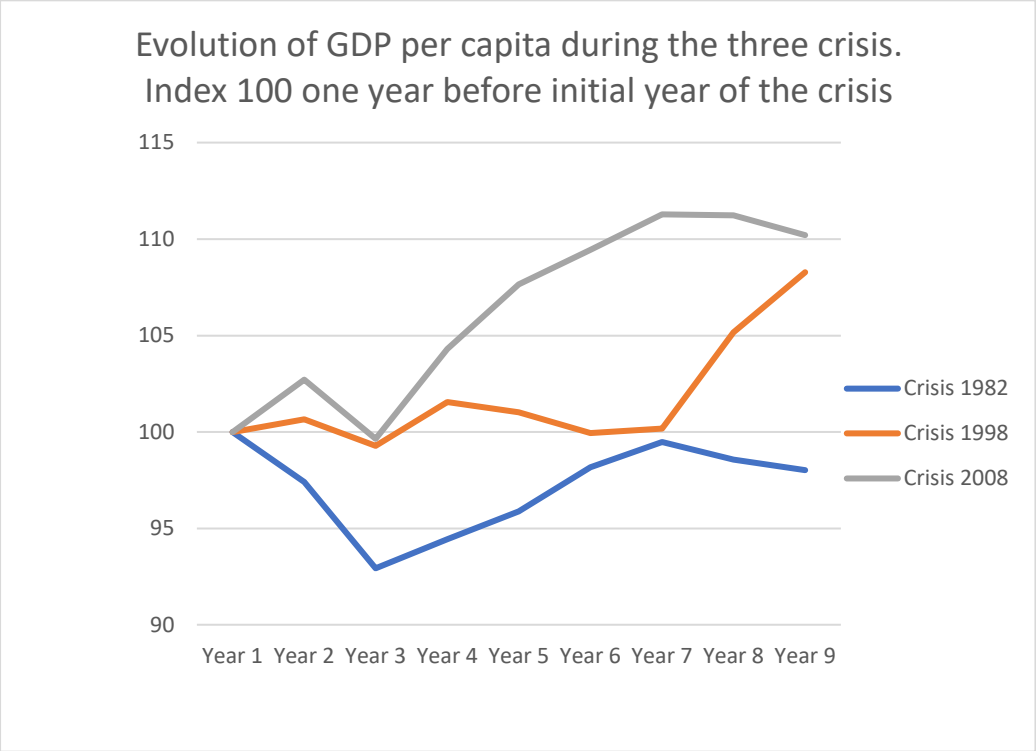


**CHART 20 SOURCE: OWN ELABORATION WITH WORLD BANK, WORLD DEVELOPMENT INDICATORS. INDICATOR NY.GDP.PCAP.KD**

Let us now look at the comparison with high-income countries. We will only take the great financial crisis of 2008, because there is no point in comparing the previous crisis (chart 21)

If we compare Latin America with the rich countries, namely the high-income countries as defined by the World Bank, the chart is again impressive. As we have done before, we set index 100 one year before the crisis triggered in 2008 and we put in the chart high income countries and Latin America. Despite the crisis, Latin America has experienced consistently higher growth, and its curve remains above high-income countries. The gap with rich countries has been reducing at least until 2014.

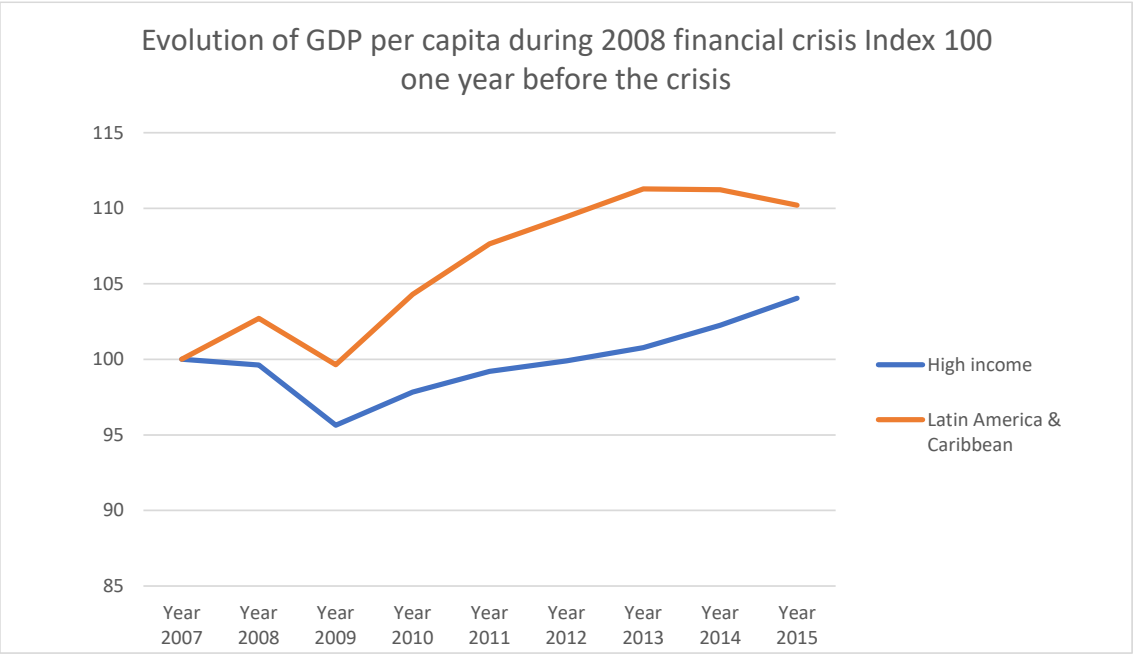


**CHART 21 SOURCE: OWN ELABORATION WITH WORLD BANK, WORLD DEVELOPMENT INDICATORS. INDICATOR NY.GDP.PCAP.**

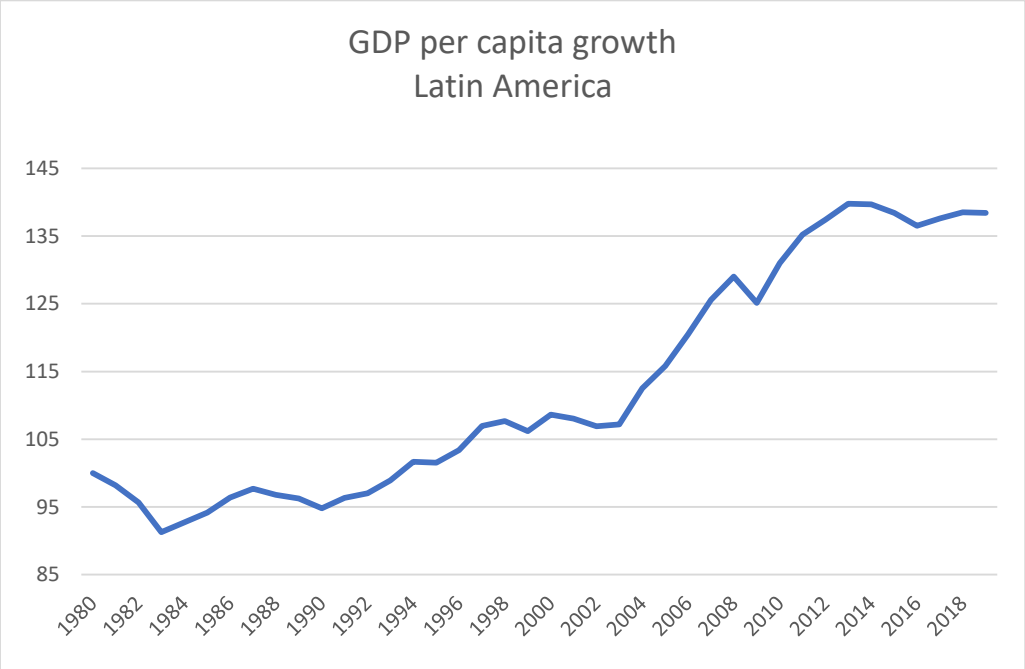


**CHART 22 SOURCE: OWN ELABORATION WITH WORLD BANK, WORLD DEVELOPMENT INDICATORS. INDICATOR NY.GDP.PCAP.**

Let us finally look at Chart 22 that shows the largest span of years. The evolution of GDP per capita for Latin America from 1980 to 2019, just before the pandemic. We set index equal to 100 in year 1980 and we note how the growth stage from 1991 to 1997 is not despicable, although it was followed by a pronounced stop, as we have already mentioned, and a period of stagnation mixed with sluggish growth. The upward trend is recovered in 2000, and with the exception of the year of the great financial crisis, the upward trend has been consistent. This is unparalleled in the history of Latin America for at least the last forty years.

The charts for Mexico and Argentina are also very eloquent, but they show some interesting peculiarities.

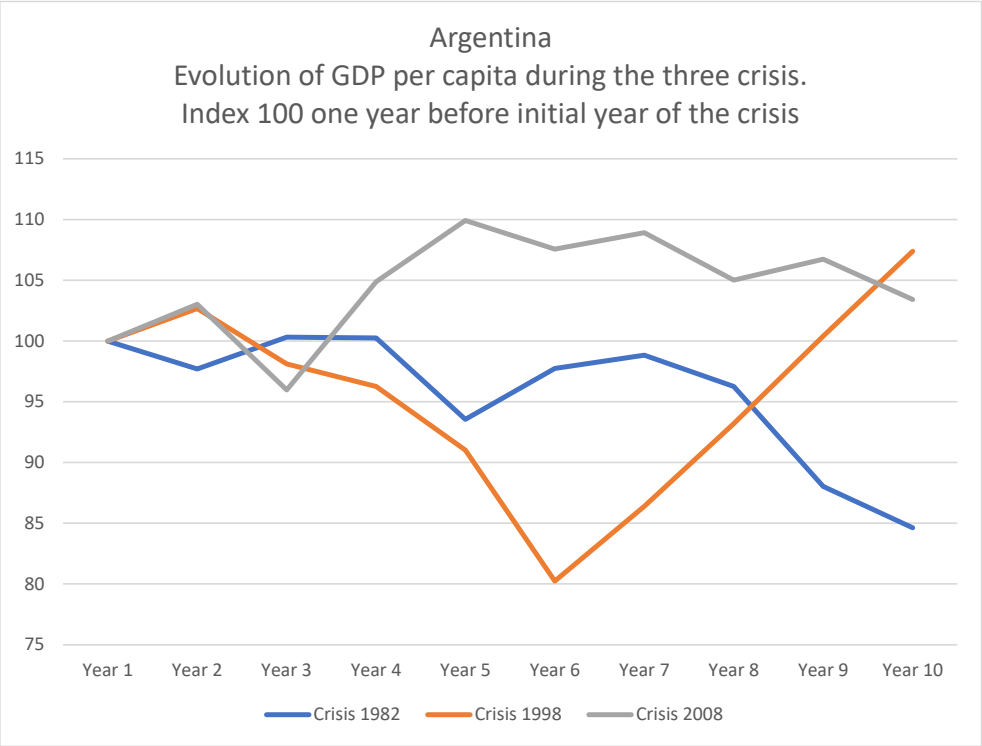


**CHART 23 SOURCE: OWN ELABORATION WITH WORLD BANK, WORLD DEVELOPMENT INDICATORS. INDICATOR NY.GDP.PCAP.**

Argentina suffered the worst of crisis with the end of the peso convertibility as we have previously explained in this dissertation. This is reflected in chart 23 that clearly marks the slump of 1999-2001. The slump was terrible. Much worse than the debt crisis of 1982, but the recovery was also faster. The Great Financial

Crisis of 2008 was also noticeable, although the recovery was fast, as in the rest of the region, with a GDP per capita growth of 10 points in year five, compared to the pre-crisis level.

Mexico is even more peculiar (chart 24), especially if we look at the effects of the Asian crisis in the country. Let us recall that Mexico had its own crisis in 1995, that was resolved with a large loan from the US Treasury, and in 1997, the economy was booming thanks, above all, to the effects of the recently enforced trade agreement with the USA and Canada.

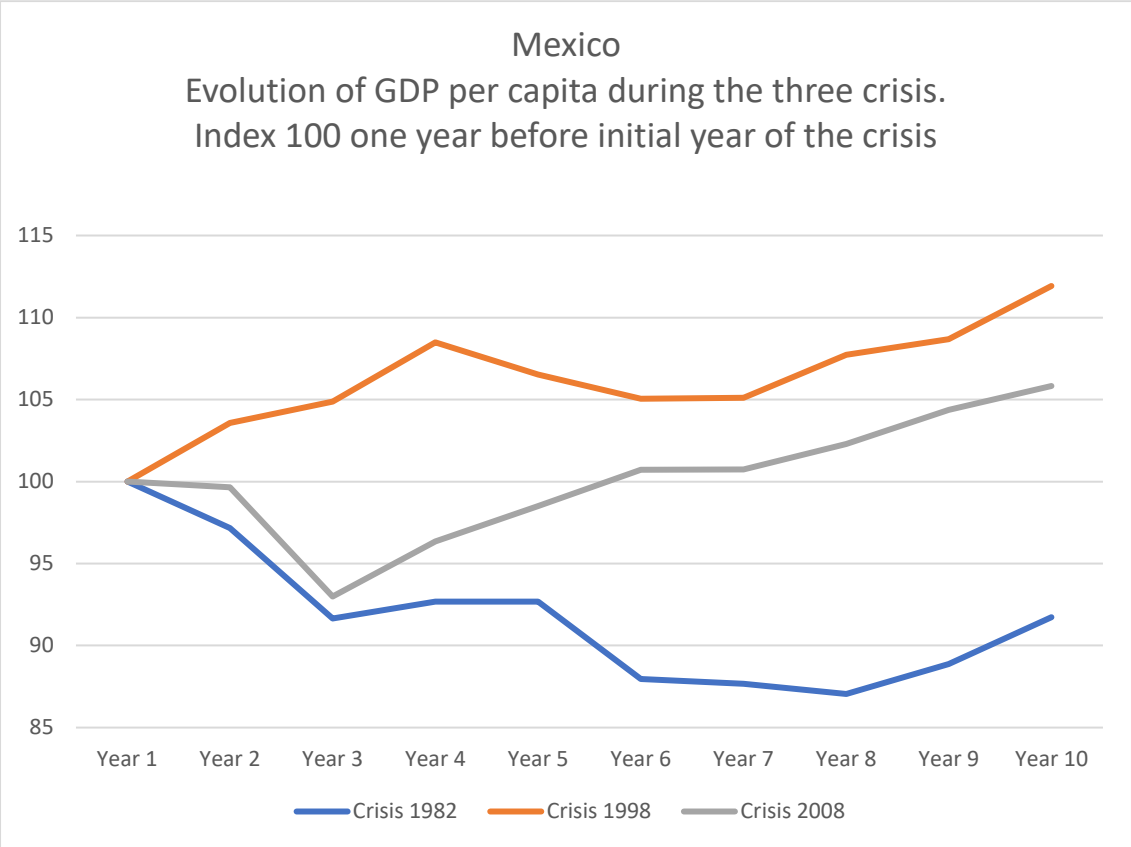


**CHART 24 SOURCE: OWN ELABORATION WITH WORLD BANK, WORLD DEVELOPMENT INDICATORS. INDICATOR NY.GDP.PCAP**

The great financial crisis of 2008 also hit hard Mexico, but only for one year, and the recovery was at a steady path. To illustrate this, let us look at growth compared with the USA during the last financial crisis (chart 25).

It is certainly astonishing how the correlation of growth path is so perfect and were not for the deeper slump of Mexico in the year of the crisis, Mexico would have certainly outpaced the US in that period.

In fact, what happens with Latin America and with Argentina and Mexico in particular, is that crises always hit badly their economies, and the countries in the region loose pace with high income countries at those precise moments of the crises, making the filling of the gap difficult, despite the strong recoveries. If Latin American countries were able to mild the crises, the gap with high income countries would reduce much faster.

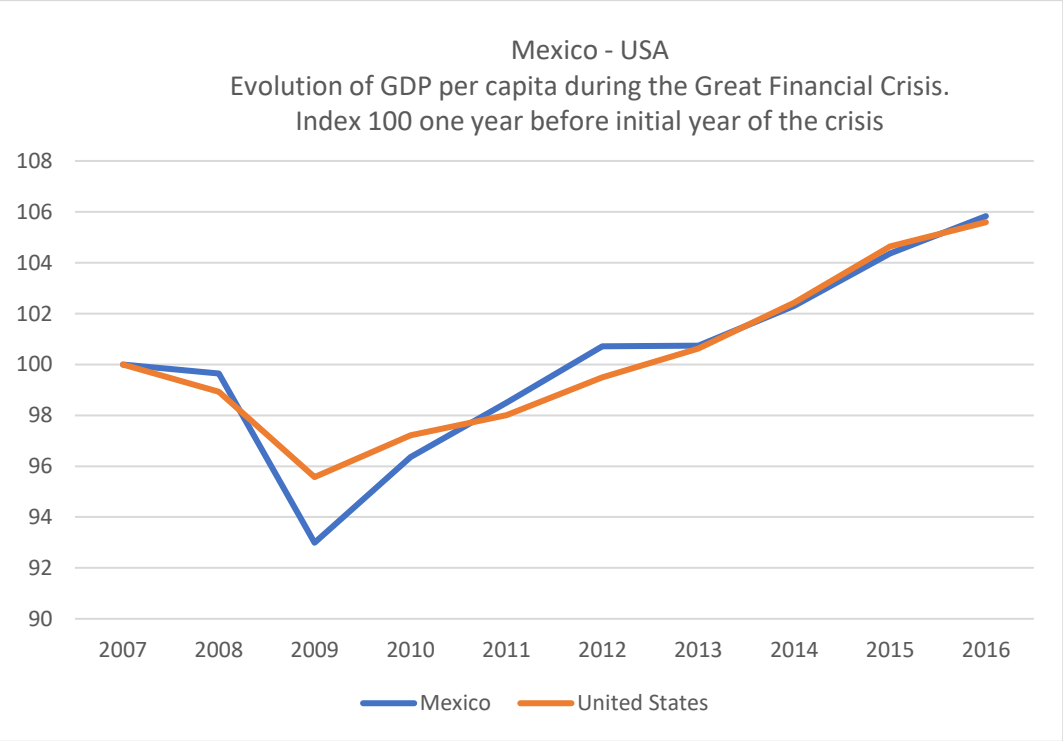


**CHART 25 SOURCE: OWN ELABORATION WITH WORLD BANK, WORLD DEVELOPMENT INDICATORS. INDICATOR NY.GDP.PCAP**

For the first time in a century, a global crisis had milder effects in Latin America and specifically in Argentina and Mexico than in other parts of the world, and that happened in 2008, allowing for the countries to keep their quest to narrow the gap with high income countries.

EVOLUTION OF GDP FROM 2015 ONWARDS

We need to pause at this moment of the dissertation to face the avalanche of news about Latin America's economic misbehaving in recent years, and in particular, in view of the publishing of a number of articles by Professor José Antonio Ocampo, warning about the lousy GDP data in the region, for five years from 2015 to 2019, which it has come to call lost half decade[46], because the average GDP growth in the region is very low in that period.

The question is: Does this invalidate the thesis defended in this dissertation? i.e. that Latin America had a good performance during and in the aftermath of the great financial crisis of 2008?

In my opinion, it does not.

First, the period 2015-2019 is difficult to compare with other periods. In order to compare periods, we should always use similar initial dates. For example, the initial year of an economic crisis, or the initial year of a relevant economic event, for instance a trade treaty like NAFTA.

Second, the thesis defended in this dissertation is based on another finding: Latin America has behaved during and after the great financial crisis of 2008, better than in the 1982 and 1997 crises. Better compared to itself in those crises, and better compared to other regions during the crisis we are analysing. To proceed with this comparison, we have taken as initial year, one year before the crisis busted in all cases, and we have gone through a span large enough to analyse the performance post-crisis. Let us try now different timespans to test the strength of the assertions.

We have seen above the comparison with high-income countries, as defined by the World Bank for 7 years from the onset of the crisis[47], the data leave no room

46 See for example https://oecd-development-matters.org/2021/01/05/the-dramatic-latin-american-crisis/ Last visit 16 May 2021

47 I understand that 7 years since the start of an economic crisis is a sufficient period for analyzing the effects of an economic crisis

for hesitation. The 2008 financial crisis is the first time that over a long enough range, Latin America has experienced growth above high-income countries.

Figure 23 below shows the comparison with OECD countries, to provide another reference, and we obtain similar outcomes.

The comparison with Southeast Asia shows consistently higher behaviour of that region in all crises, although in 1998, whose epicentre was precisely that region, the recovery in seven years was somewhat weaker.

**GDP per capita Growth. Average for the period. Constant 2010 US Dollars**

| | Crisis 1982 up to 1988 | Crisis 1998 up to 2004 | Crisis 2008 up to 2014 |
|---|---|---|---|
| AVG 7 YEARS FROM CRISIS OECD Members | 2,41 | 1,85 | 0,27 |
| AVG 7 YEARS FROM CRISIS East Asia and Pacific | 3,66 | 2,45 | 3,61 |
| AVG 7 YEARS FROM CRISIS LATAM | -0,18 | 0,74 | 1,56 |

FIGURE 26 SOURCE: OWN ELABORATION. *WORLD BANK. WORLD DEVELOPMENT INDICATORS. CODE NY. GDP. PCAP. KD.ZG*

If we take 10 years from the start of each crisis, the data for the latest crisis are again favourable to Latin America (figure 24)

In other words, following the 2008 crisis, for the first time, the GDP differential with OECD countries has been reduced.

**GDP per capita Growth. Average for the period. Constant 2010 US Dollars.**

| | Crisis 1982 up to 1991 | Crisis 1998 up to 2007 | Crisis 2008 up to 2017 |
|---|---|---|---|
| AVG 10 YEARS FROM CRISIS OECD Members | 2,24 | 1,94 | 0,67 |
| AVG 10 YEARS FROM CRISIS East Asia and Pacific | 3,56 | 3,20 | 3,62 |
| AVG 10 YEARS FROM CRISIS LATAM | -0,17 | 1,64 | 0,94 |

**FIGURE 27 SOURCE: OWN ELABORATION. WORLD BANK. WORLD DEVELOPMENT INDICATORS. CODE NY. GDP. PCAP. KD.ZG**

If we take the graph of this indicator since 1980, for OECD countries and for Latin American countries, we note that year-to-year growth is quite mixed. There is little

correlation in the periods, always with steeper peaks in the case of Latin American countries, both upwards and downwards. Except precisely in the 2008 crisis, in which the OCDE countries were worse off.

We also note that the 2008 crisis is part of a long twelve-year period, between 2003 and 2014, in which the growth of Latin American countries remained always above OECD countries. It is the first time since the 1980s that Latin America has been above OECD countries for such a long period (red circle in chart 28)

We also observe greater proximity between the growth of both groups of countries from 2015 (not only better correlation, but greater proximity in data), although it is too soon to know whether this will be maintained in the long term (green circle in the chart)

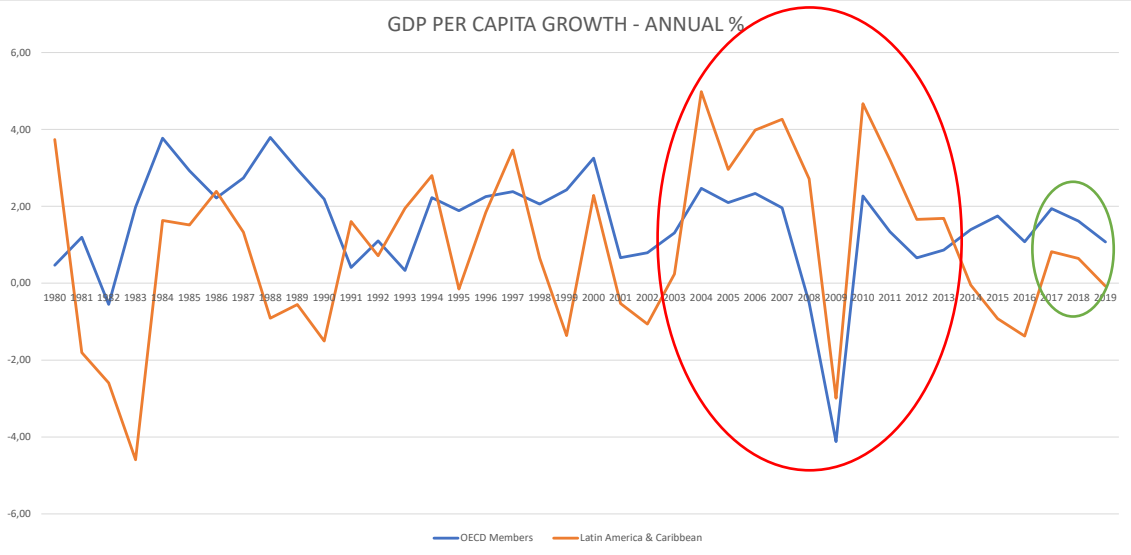


**CHART 28 OWN ELABORATION. WORLD BANK. WORLD DEVELOPMENT INDICATORS. CODE NY. GDP.MKTP.KD.ZG**

In summary, there is no doubt that Latin America is experiencing a period of low growth since 2015. However, Professor Ocampo's comparison with other crises is somewhat whimsical. We should take similar periods in all cases: For example, since the onset of each crisis, as we have done: 1982, 1998, 2008, except for if we consider 2015 the start of a new crisis, which is not the case.

Is there evidence of this? The only year of negative growth has been in 2016. We can hardly regard 2015 as the start of a new crisis. CEPAL/ECLAC does not say that. Nobody says so. There's talk of contraction, slow growth, but not crisis.

Let us show a final chart before we move on. This time real GDP growth as it is, and the cumulative difference with advanced economies, as per the definition of The World Bank. Chart 29 shows this indicator and the cumulative gap in grey bars. We observe that even though growth from 2015 has been weak, it has not sufficed to erase the positive cumulative gap that was attained for the first time in year 2008.

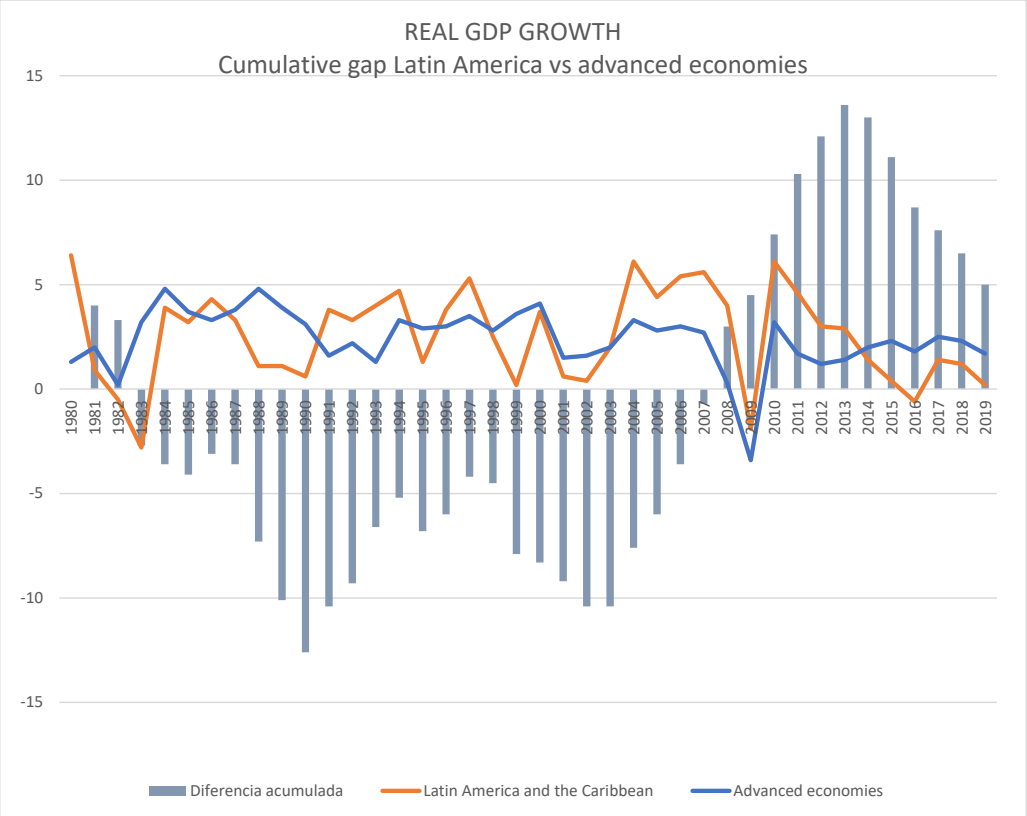


**CHART 29** SOURCE: OWN ELABORATION. WORLD BANK. WORLD DEVELOPMENT INDICATORS. CODE NGDP_RPCH

The current period of low growth is worrying, and it is appropriate to draw attention on it, but in our opinion, that does not invalidate the thesis defended in

this work that the region has entered a different paradigm of economic growth than those experienced in other periods.

Furthermore, under no circumstances does this thesis argue that the economic crises in Latin America are over for good. Economic cycles exist and will continue to exist. There is no discussion about that.

What we are defending here is that the paradigm of crises in the region has changed. Among other elements, in the absence of a more precise definition of this paradigm, it is sufficient to note for the time being that:

- The depth of crises is not so pronounced. Curves are smoother
- There are no episodes of galloping inflation (except for well-known exceptions, such as Venezuela, and more recently Argentina)
- There are no brutal debt crises. IMF interventions are minimal compared to other occasions

But one thing is economic growth in terms of GDP per capita, and another different thing is the distribution of that growth. We will analyse that more in depth later in the dissertation, but let us stay for the moment, that even though equality is affected, as in any economic crisis, but even here, the automatic stabilizers that were put in place in the first decade of the twenty-first century are working, which allow to cushion the bad effects of the crisis. These stabilizers may not be at the level of the existing ones in OECD countries, because the welfare state is not as developed, but they are certainly having positive effects.

### 4.3.2 Inflation

The economic instability that a mismatch of the consumer price index brings about, justifies that we look at this variable as a fundamental one to assess the economic performance of a particular country or region. Inflation affects many other economic variables and people's day-to-day life.

High inflation has been the most common feature in countries in Latin America throughout the twentieth century. It was not uncommon to see inflation rates reaching three digits, and this is the sort of thing that distorts the economy of a country. It is arguable whether the origins of all inflationary episodes are exclusively monetary or there may be other causes behind, but in Latin America, for most of the twentieth century, the reason behind high inflation is monetary, namely the quantity of money in circulation and its velocity, provoked by the excessive use of “seigniorage” by the government. This is why hyperinflation is also a symptom of institutional weakness (de Gregorio, 2014: loc 746), in the sense that it may be caused by fiscal imbalances, and reflects an erratic economic policy, which most probably does not have inflation targeting as a referential policy.

Most importantly, inflation generates uncertainty. Households see the purchasing power of their cash decrease, and firms leave behind the search for productive activities to put efforts on fighting against inflation. Among the many negative effects of high inflation, let us highlight that with high inflation the savings rate is necessarily low, even if the government is forced to offer substantially higher yields for their bonds. People would prefer to buy products or hard currency or land, or any asset safer than cash. Equally, companies require higher yields for their investments and pay higher interest for their debts. They would eventually prefer to hold their cash in hard foreign currency, because the local currency will decrease its purchasing value in the future.

Inflation is in the end a (hidden) tax on the cash that both households and firms are currently holding. Facing the impossibility of increasing the formal taxes on individuals and firms, the government simply prints money, as an alternative, but that reduces the purchasing power, and its effects are those of a tax. Particularly an indirect and very regressive sort of tax.

To complicate things further, as it is usually the case in economics, the opposite of inflation, deflation, or just the lack of inflation at all, may also cause several problems to the economy, by provoking what is called a liquidity trap, where

households and firms hold their money indefinitely. But this is not to be discussed in this work[48].

During the great financial crisis, inflation has been showing astonishingly low figures for the region's standard. Even Argentina had a reasonable performance, as we will analyse below

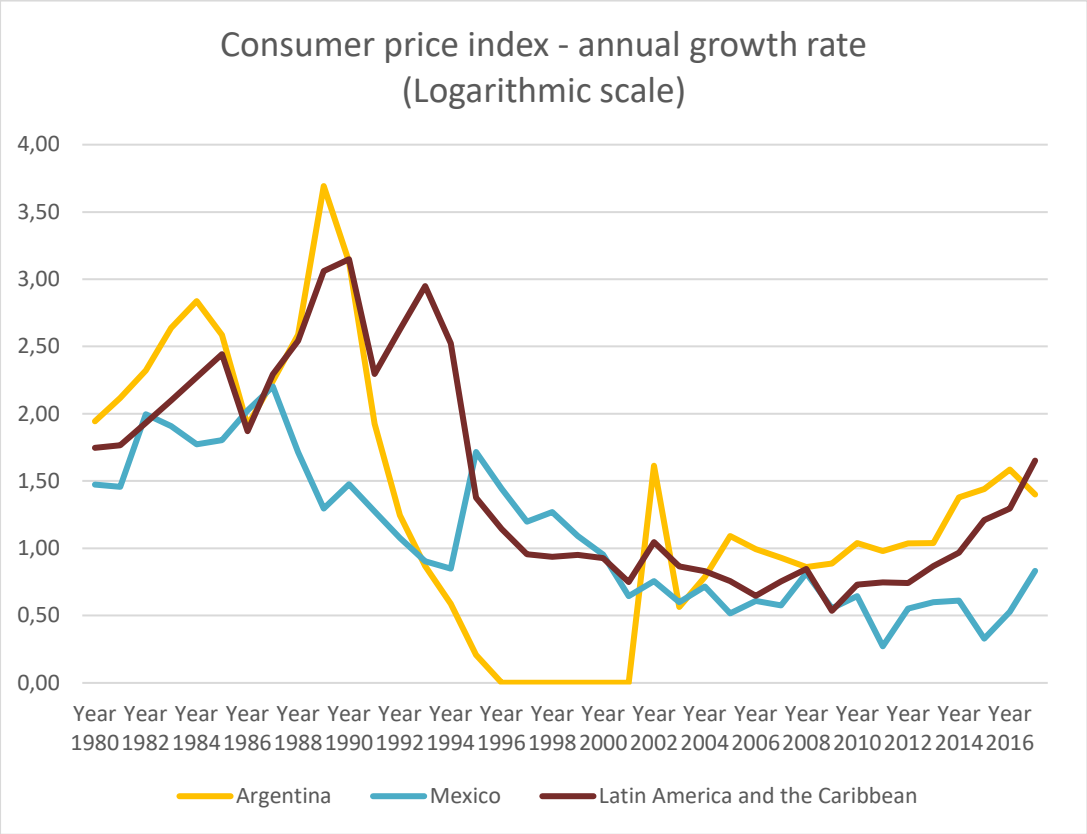


**CHART 30 SOURCE OWN ELABORATION. CEPALSTAT INDICATOR ID 2484. LOG SCALE. FOR ARGENTINA, WHEN ANNUAL INFLATION WAS NEGATIVE, WE HAVE SET THE VALUE TO ZERO.**

Chart 30 shows the evolution of inflation from 1980 to 2017, for Argentina, Mexico, and the ensemble of LAC countries, using a logarithmic scale to soften the hyperinflationary episodes of countries in the region. The evolution is evident and the behaviour since 2008 draws attention to the absence of high peaks, as it

48 A very interesting book on this was written by Nomura analyst, Richard C. Koo, with an interesting view of the effects of the balance sheet on economics (Koo, 2018)

was the case in the last quarter of the twentieth century. It is a new pattern never seen before. Nothing to do with the peaks of the 1980s following the debt crisis.

It is especially astonishing the case of Argentina, that was able to draw down inflation during the 1990s at the time of the one-to-one convertibility with the USD, a peak at the end of it and the "corralito" crisis and then a similar pattern as the rest of the countries of Latin America[49]. We must also highlight that the beginning of the Macri Administration was good for inflation, at least until 2018.

Mexico is the best performer in this chapter, we see the effects of the enforcement of NAFTA, since 1994, and the fact that the Bank of Mexico was granted autonomy through the constitutional reform of 1993, and a specific mandate to target inflation. This was certainly a requirement of the trade agreement about to be signed by then.

We can, therefore, conclude that this variable also shows a clear different pattern from previous crises, and that this pattern plays in favour of our thesis.

### 4.3.3 Risk Premium

If there is an economic indicator that has become famous in recent years, since the great recession of 2008, this has been the risk premium. Suddenly, everyone, especially in southern European countries, was talking about the risk premium almost like who is talking about football results.

The risk premium is measured in the form of a spread against credit default swaps (CDS) of the USD 10-year bond. This is a measure of the famous sovereign debt risk premium. In Europe, the usual measure is against CDS of the German Treasury bonds, but as we are in the Americas, we will take as a reference the US bond, but the problem is to choose a good instrument.

49 A dark spot at this point is the doubt cast on Argentinian inflation figures during the period of Axel Kicillof as ministry of fiancé between 213 and 2015 under the government of Cristina Fernández de Kirchner. But the figures are generally accepted by multilateral organizations

The investment bank J.P. Morgan is a leader in assessing global investors in emerging markets through the research and development of indices for each case. The sophistication of financial markets is reflected by the fact that there are currently around 80 different indices for emerging markets, that cover different financial aspects of emerging economies from government bonds to corporate bonds, filtered by maturities, currency. liquidity or sectors, and therefore, choosing a good index is a task by itself. Fortunately, in the early 1990s, precisely after the issuance of the first Brady plan that we mentioned earlier, J.P. Morgan created what, still today, is the most widely referenced index to assess the risk premium of sovereign bonds of developing countries. This is the Emerging Markets Bond Index Global (EMBI Global Diversified)[50]. The index covers most of emerging economies on a daily basis and it is also used to assess a country risk for trading and other purposes.

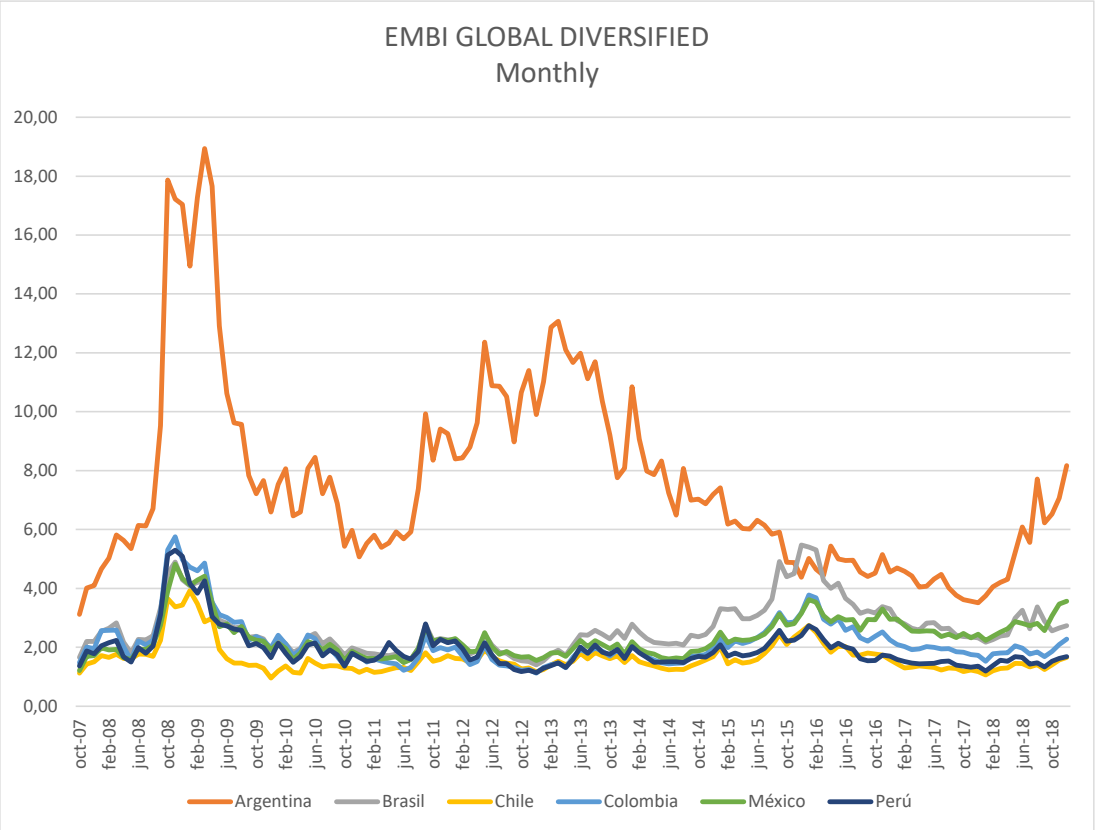


**CHART 31** SOURCE: OWN ELABORATION FROM J.P. MORGAN DATA

50 For a detailed explanation of the index visit https://www.jpmorgan.com/content/dam/jpm/cib/complex/content/markets/composition-docs/pdf-27.pdf last seen Jan 13th 2023

Chart 31shows the evolution of EMBIG diversified index on a monthly basis since the first data available. We have taken the group AL-7, except Venezuela that would distortion the chart. We observe that except for Argentina, who has always had their own issues with international financial markets, especially since the 'corralito' crisis in 2001, the rest of the countries show an astonishingly good performance. Of course, the 2008 Great Financial Crisis had effects on the index, but it quickly recovered the smooth path, and financial markets trusted Latin American economies.

The issues we were mentioning in Argentina, were particularly reflected in years 2012 to 2014 when the long-standing dispute between the so-called vulture funds, that purchased government bonds during the 'corralito', and the Argentinian government was being seen at the court in New York. It was the time of Judge Griesa judicial depositions in favour of the vulture funds. National feelings came up fiercely in the streets of Buenos Aires, as we see in the affiches decorating the streets of Buenos Aires those days.

**FIGURE 32 PHOTO TAKEN BY THE AUTHOR. BUENOS AIRES, JUL 2014**

If we take Latin America globally (chart 28 below) we observe a similar shape for the chart, showing that the phenomenon was really regional, and not just for the big economies.

For the purpose of comparison, we can take Spain and analyse the behaviour those years. We will not use the index format, but the spread of the interest rates in basis points, against the German bond 10 years, which is he reference for Europe.

Chart 33 shows the evolution of the risk premium, from October 2007 on a monthly basis until October 2018. The comparison with Spain leaves no room for doubt.

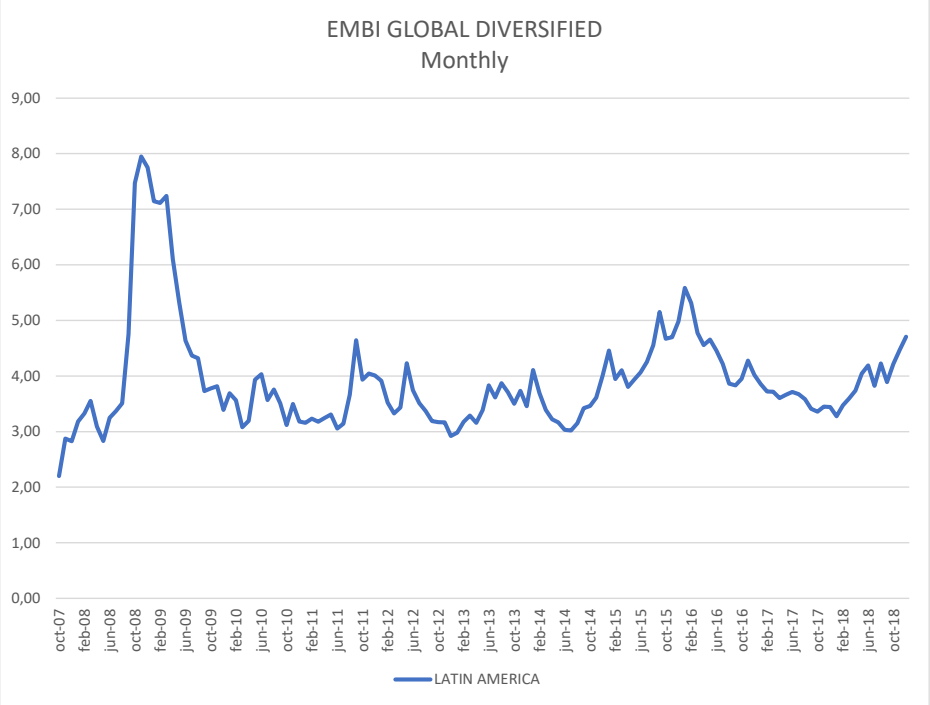


**CHART 33 SOURCE: OWN ELABORATION FROM J.P. MORGAN DATA**

Not only these countries have not been out of the international debt market, but they have had a much better performance than a supposedly stable country of the Euro zone such as Spain.

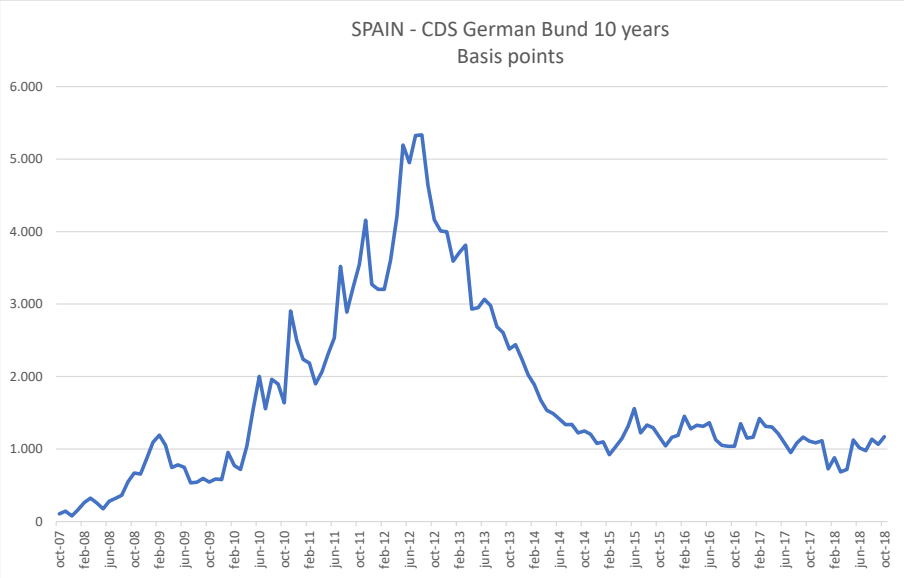


**FIGURE 34 OWN ELABORATION. SOURCE BANK OF SPAIN FINANCIAL MARKETS DATA**

### 4.3.4 Capital Inflows and Outflows

Capital flows are a tricky element of the national accounts. To begin with, we must distinguish between gross and net flows. Gross inflows are the total amount of capital coming into an economy, whereas net inflows are the difference between incoming and outcoming revenues.

The twenty first century has experienced a massive growth in gross capital flows, accompanied by a wave of financial liberalisation all around the world. The literature on net capital flows is very extensive, but for gross flows, this is not so much the case, although it is calling the attention of research centres, especially due to the effects of gross flows in the financial stability of countries and regions (Alonso Alvarez, 2015). It is also a sign of confidence on the development of a particular country or region.

Net flows for their part, have more to do with macroeconomic stability and the exchange rate. A net capital inflow may just reflect that there is a current account deficit, but it is easily financed by inflows, from abroad. Conversely, a net capital outflow may reflect that many local entrepreneurs are investing out of the country, which should be a sign of economic good health. Now, if we introduce the international reserves of a country, the problem is when net capital outflows come with a decrease in the national reserves (of foreign currencies), this is a bad sign, and may limit the country's capacity to import goods, generating an exchange rate depreciation and inflation.

For the purpose of our research, we are interested in the gross capital inflows, as a reflection of confidence in a particular economy and we will see that contrary to other occasions, capital inflows did not experience the usual sudden drops.

The drivers for gross capital flows can be pull or push (de Gregorio, 2014; loc 2522). The pull factors consider elements of the domestic economy that attract foreign capital, such as productivity growth, new investment opportunities or institutional strength, while push factors are related to the global environment, such as higher savings in the rest of the world or low foreign interest rates.

Let us see what happened in our countries of interest since the last decade of the twentieth century

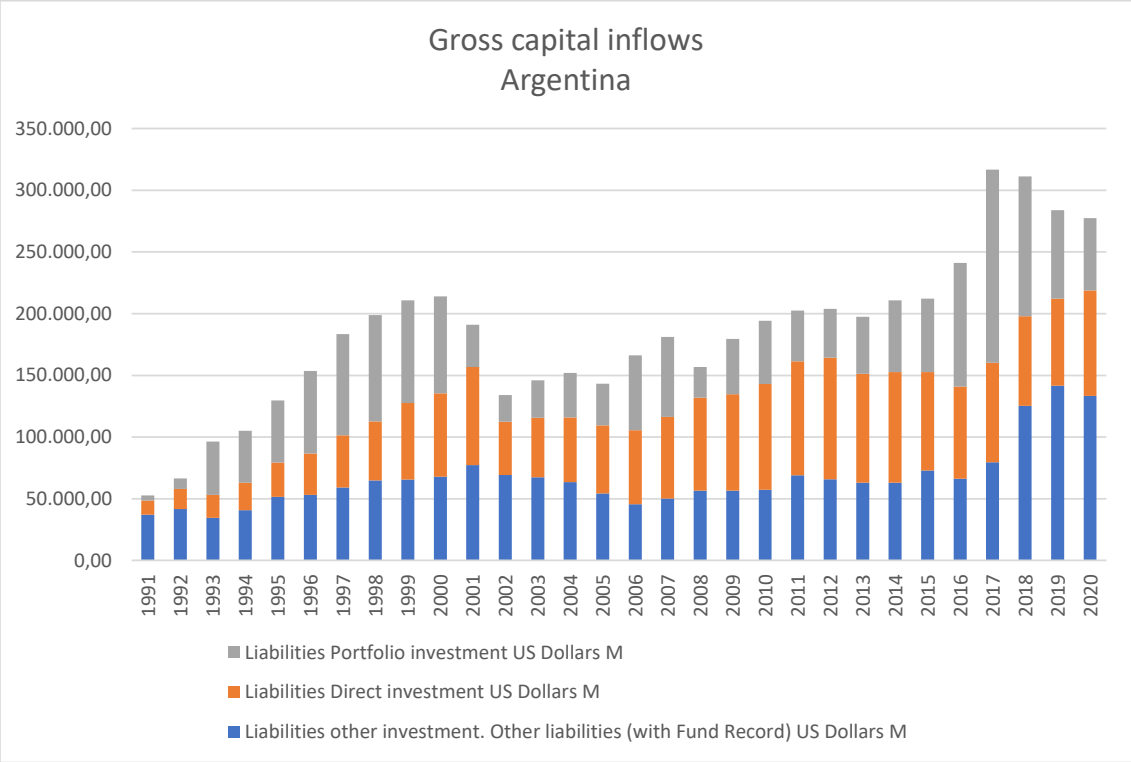


**CHART 35 OWN ELABORATION. SOURCE IMF INTERNATIONAL FINANCIAL STATISTICS**

Charts 35 and 36 show the aggregate of gross capital inflows following the methodology of the IMF.

In Argentina, the big fall in capital inflows from abroad came with the “corralito” crisis. The level of gross capital inflow was not recovered until 2007. The Great financial Crisis of 2008 brought a fall in 2008, but the levels were soon recovered in 2009, and the following years. Unfortunately, the IMF series starts in 1991, and we do not have the data for the 1980s.

In the case of Mexico, the IMF series only starts in 2001, but we see a steady growth since then, and the 2008 crisis only meant a slight fall in that year, that was soon recovered.

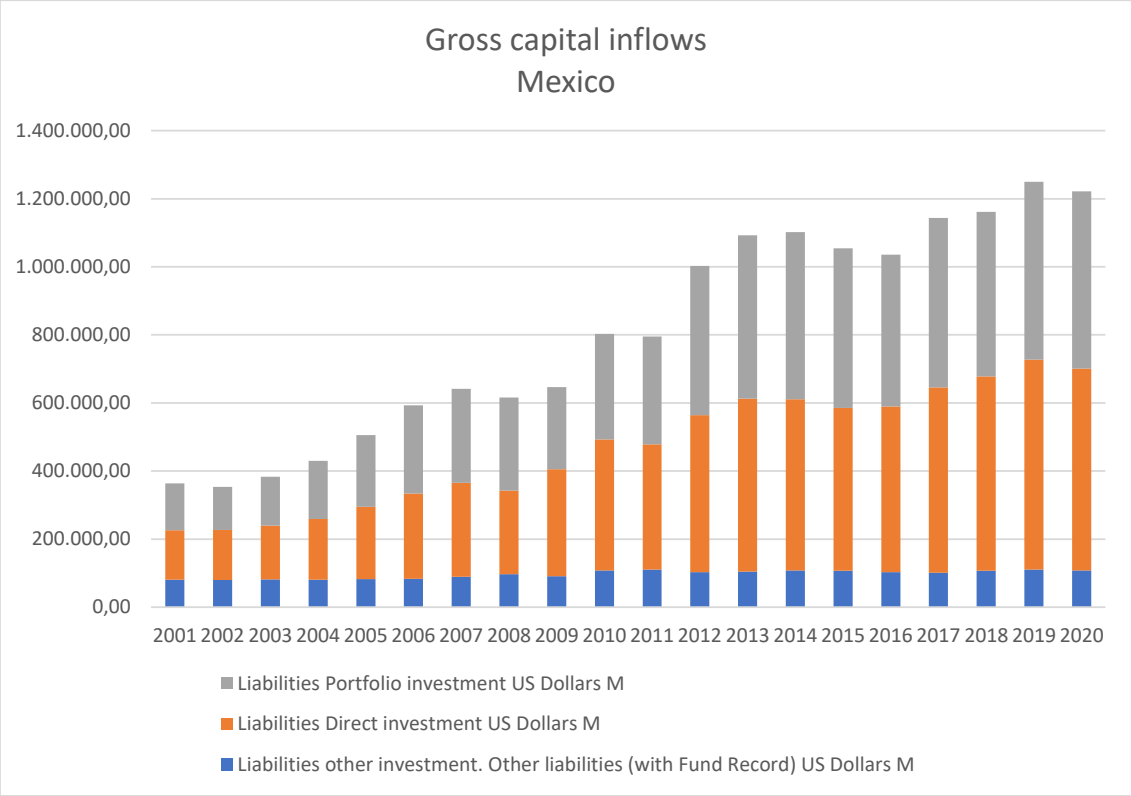


**CHART 36 OWN ELABORATION. SOURCE IMF INTERNATIONAL FINANCIAL STATISTICS**

A common factor in all crises in Latin America has been the hike of capital outflows, together with a decrease of international reserves. As it has already been stated, in all crises, economic actors fly away from risky assets and put their capital in safer investments, that typically include treasury bonds and deposits in local banks, but investors in developing countries do not consider those assets to be safe, and contrary to what happens in developed economies, they also run away from those assets and put their capital elsewhere, out of the country. Financial crises lead to capital outflows (Frenkel & Rapetti, 2009), and we should add, a contraction in the country's foreign exchange reserves.

Charts 37 and 38 below show the evolution of international reserves for Argentina and Mexico respectively. Due to the big difference in the absolute data, it is better use two different charts.

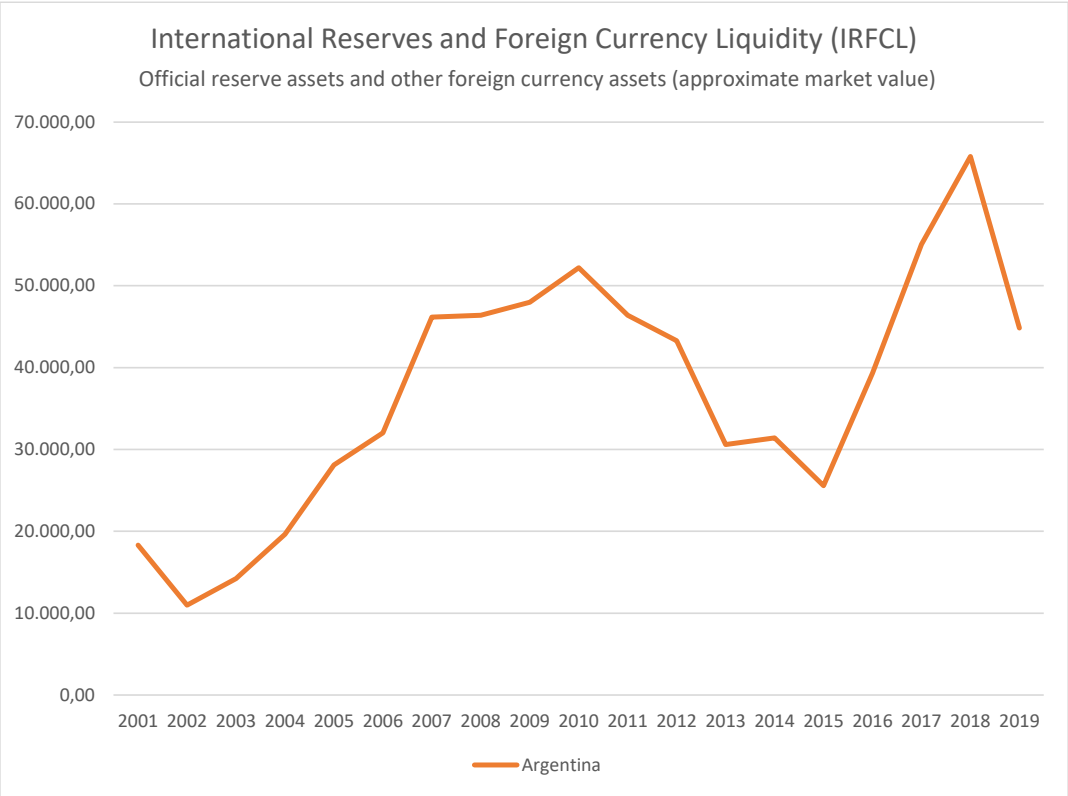


**CHART 37 OWN ELABORATION. SOURCE IMF DATA**

We observe that Argentina was suffering from the 'corralito' crisis at the beginning of the century, but the great financial crisis of 2008 did not have much effect on the foreign reserves. It was during the presidency of Cristina Fernández de Kirchner that the foreign reserves suffered, and measures to limit capital outflows were implemented, concurrently with the problems with US courts that me mentioned above. Confidence momentarily recovered at the beginning of Macri's presidency and restrictions were discarded coincidentally with a recovery in foreign reserves, but amid economic instability he had to impose restrictions again in 2019, which did not impede the international reserves to fall down.

Mexico's international reserves had experienced a much steadier trajectory, and they have constantly increased, except for minor setbacks during the presidency of Peña Nieto. Contrary to what used to happen, the end of the six-year presidential term did not cause much harm to reserves, not even when alternation in power occurred in 2012 and 2018, with the advent of López Obrador.

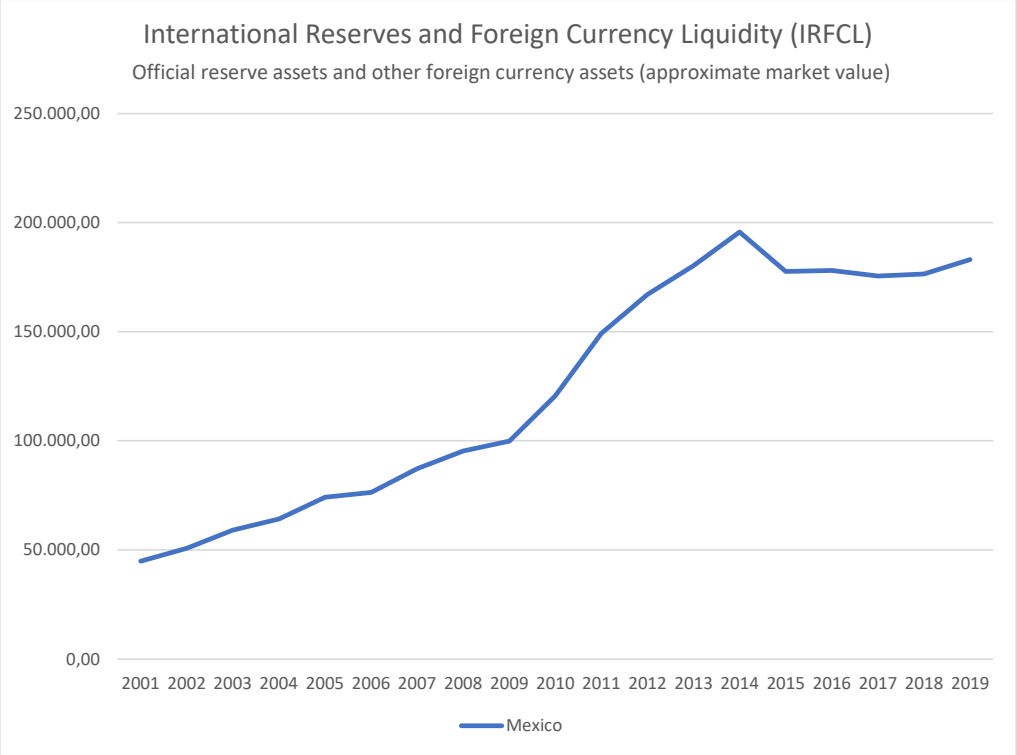


**FIGURE 38 OWN ELABORATION. SOURCE IMF DATA**

It is also important to note that the multilateral organizations had learnt from previous crisis and that a new instrument form the IMF, the Flexible Credit Line (FCL), was created in 2009 to reduce the stigma of borrowing from the IMF and to encourage countries to ask for assistance "before they face full-blown crisis"[51]. Mexico was one of the original users of the instrument in 2009, together with Colombia and Poland, although that was not the case of Argentina.

All in all, the great financial crisis of 2008 did not mean an increase in capital outflows, nor a decrease in international reserves, an absolute novelty compared to previous crises.

51 See https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/40/Flexible-Credit-Line, last visit Nov 6th, 2022

## Foreign Direct Investment

Foreign direct investment (FDI) is a component of capital inflows. In fact, the main component and the one that shows the highest trust, because it generally entails a long-time investment,

Foreign direct investment is a measure of the confidence in a country. It is more stable than other inflows, like portfolio investment, which tends to be volatile by nature, especially in an environment of financial mobility.

Chart 39 shows net inflows of foreign direct investment for the region (LA7) and for the countries of our study. We see a clear positive trend for the region as a whole and for Mexico in particular, where the global financial crisis provoked some setbacks, but recovering the trend soon after it. The countries are at maximum levels for this category.

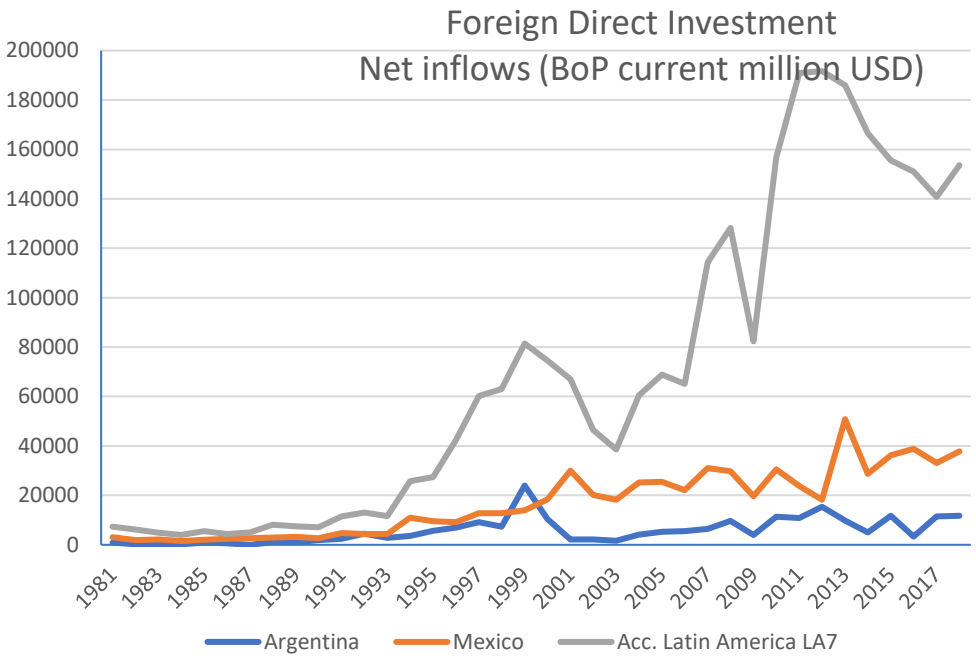


CHART 39 SOURCE: OWN ELABORATION WITH DATA FROM DATA.WORLDBANK.ORG

The case of Argentina is different, and the maximum amounts attained in year 1999 have not been recovered yet, but despite that, we do not see a clear downward trend.

### 4.3.5 Evolution of Inequality

As we have said, a common denominator in Latin America's economic history is the unequal distribution of income[52].

In market economies, large inequality stems principally from large differences in the distribution of income in that economy, generally speaking, a country. There are some views on inequality that propose a multifaceted concept. For instance, Amartya Sen explains that inequality naturally exists among human beings, in the sense that human beings are diverse, including mental and physical conditions (Sen, 2021; p. 28). This diversity reflects itself in the fact that human beings may choose a combination of "doing and beings" that he calls *functionings,* but the freedom for a human being to choose among those *functionings* depends on the human being's *capabilities*, which consist of elements like nutrition, health, education, but also political participation, freedom of expression or economic opportunities, like a paid work, which brings us back to the importance of the distribution of income as a complement to the measure of GDP (Stiglitz et al., 2009; p.137).

The Gini index is the most common reference to measure inequality in income distribution. A value of 0 means totally egalitarian distribution and a value of 1 means that the distribution is absolutely unequal. The index is generally calculated based on household surveys in the countries that allow for an estimation of income distribution.

The theory says that in commodity export countries, an improvement in the terms of trade, and that comes with a commodity boom, will entail an increase in inequality, although later the effect diminishes, and inequality returns to the pre-boom level (Goderis & Malone, 2011) (Prados de la Escosura, 2007). As stated in a recent article by Professor Diego Sánchez-Ancochea of the University of

52 Economic studies of inequality are generally focused on the dispersion in the distribution of a certain allowance of well-being, but in this work, we will focus on the dispersion of income distribution, which is the most accepted proxy to measure inequality.

Oxford, an expert in inequality studies, it is the first time that with a boost in commodity prices, inequality descends (Sánchez-Ancochea, 2021b).

On another note, we have seen the risk of the "Dutch disease": when the economy of a country depends very much on a particular natural resource abundance. The basic effect is the displacement of resources towards the sector of the natural resource in particular, generating inequality.

Nevertheless, this did not happen in Latin America during the first decade of this century, when a commodity boom was in place, and moreover, the great financial crisis of 2008 did not break the downward trend in inequality, measured by the Gini coefficient, that, even if at a slow pace, has been constant since year 2000, as chart 40 below shows. We will analyse the commodity booms later in this dissertation but let us look here at inequality in this context.

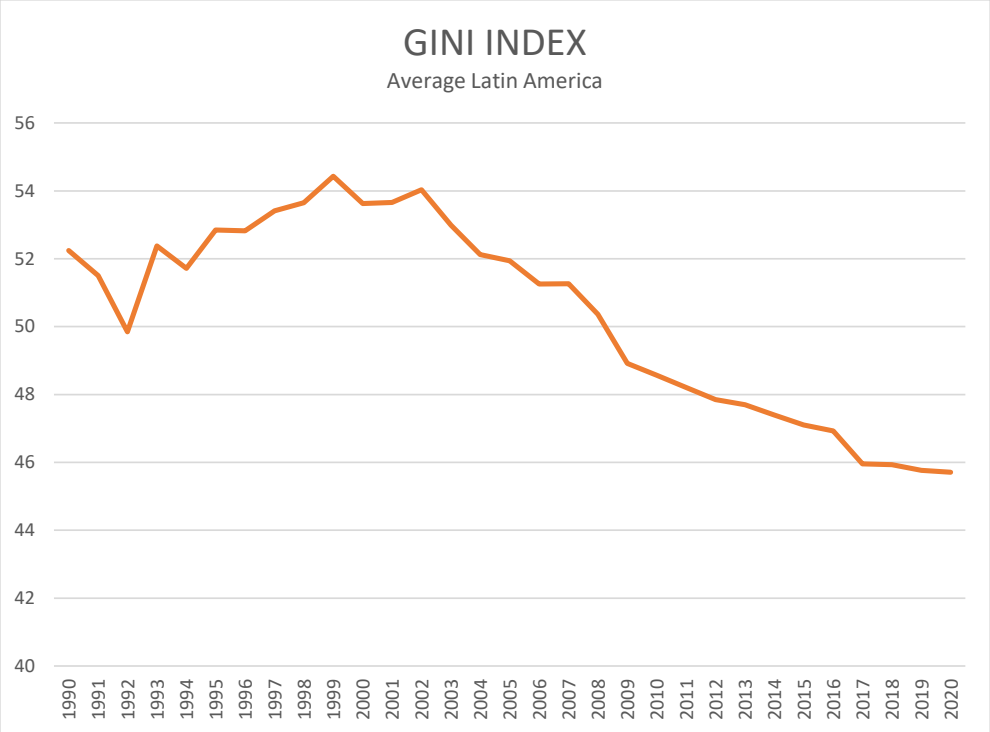


**CHART 40 OWN ELABORATION. SOURCE: DATA.WORLD.BANK.ORG, INDICATOR SI.POV.GINI**

Scholars do not agree on where to put the origins of the inequality in Latin America, if in the colonial structures (Sokoloff & Engerman, 2000) (Acemoglu &

Robinson, 2012) or much later, in the late nineteenth century (Bates et al., 2007) (J. G. Williamson, 2015).

We rather favour the second option. On the one hand, the reduction of inequality necessarily comes with economic growth, at least where the means of production are in the hands of individuals, and data of economic growth, as we have seen earlier, corroborates that the first big gap in growth relative to the rest of the Western World, took place after countries in Latin America became independent. On the other hand, let us not forget that we live in a non-ergodic world, and that the actions of human beings matter and affect the initial endowments, and therefore, it is difficult to support, that institutions that were implanted in the sixteenth century are the only reason why inequality is pervasive in Latin America in the twentieth century. There is no empirical evidence about that (Dobado González & García Montero, 2010), and there is certainly human actions ("history" as it were) after independence (Dobado González, 2009; p. 6). On another account, the long term studies pursued by Professor Pablo Astorga, one of the great scholars of inequality in Latin America, confirm that despite the common colonial past, the trajectory of inequality differs very much from one country to another (Arroyo Abad & Astorga Junquera, 2017; p.356).

Furthermore, The reason why inequality is so broad in Latin America is not that the poor are poorer than in the rest of the world, but that the rich are richer(Sánchez-Ancochea, 2021; p.20), and this is certainly a phenomenon dating from not so long ago.

One of the brightest phenomena of Latin America's last two decades of economic history is poverty reduction. The poverty rate fell from 43.8% in 1999 to 29.4% in 2011, and in some cases (Colombia, Peru and Venezuela), the rate lost more than 20 points (Quenan & Velut, 2014:97). As we have been saying, convergence (or catch up) has restarted in recent years, and we will see if it is to stay.

Chart 41 shows the evolution of Gini's index in selected dates between years 2000 and 2018. The evolution is positive both in Argentina and Mexico, and they seem to leave behind the barrier of value 50. For the region as a whole, the trend is the same in the long run (in this case from year 2000 to year 2018), the Gini

coefficient is well below the pre-boom figure. Note also that this trend contrasts with what happened in Europe during the crisis, where countries such as Spain or France, suffered from increasing inequality.

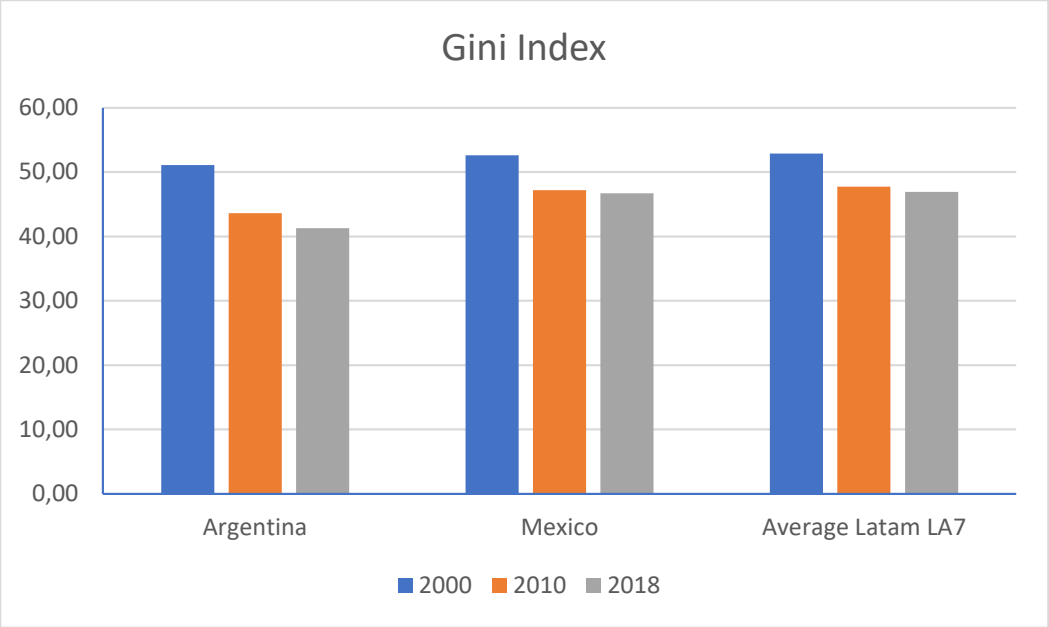


**CHART 41 OWN ELABORATION. SOURCE: DATA.WORLD.BANK.ORG, INDICATOR SI.POV.GINI.**

For a reference, if we take the previous decade (chart 42), the evolution is exactly the opposite, although we must take year 1992 as initial, instead of year 1990, because it is the first year that we have data for the countries of study.

By looking at both charts together, we note that taking 1992 as the initial date, the Gini index by 2018 is below the initial figure, despite the setback of the decade up to year 2000, showing that the two first decades of the twenty-first century are really groundbreaking years for this important indicator.

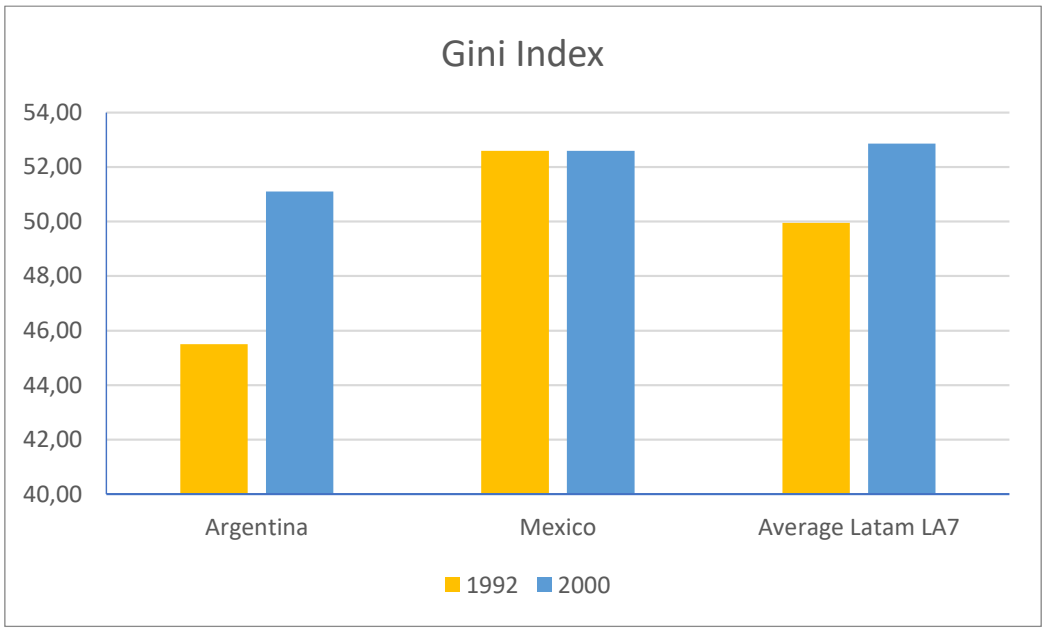


CHART 42 OWN ELABORATION. SOURCE: DATA.WORLD.BANK.ORG, INDICATOR SI.POV.GINI.

## 4.4 CONCLUSIONS FOR THIS CHAPTER

In summary, the data we have analysed show that the region's behaviour during the crisis period has been very different from that of other occasions. The economic parameters we have chosen, show exemplary stability. Moreover, if we chose some other parameter such as the exchange rate of currencies against the dollar, we find behaviours also much better than at other times. There have been no exchange rate tensions, nor has there had to be sharp devaluations. Currencies simply floated, although certainly the study of exchange rates is of enormous complexity and requires more space than we have in this work.

We have seen that the transmission channel of the crisis for Latin America was not the housing market as it was in the USA or Europe, but it was also different from other occasions. If we consider that there are three main transmission channels in an international crisis: the financial, the trade and the remittances, in this case, opposite to other occasions, and despite the financial nature of the crisis, the financial channel was not so important and the effects were rather mild, as we have seen with the risk premium and the capital outflows. There were impacts at the outbreak of the crisis, but the countries quickly recovered, and even foreign direct investment remained rather stable. There is absolute consensus in this. As professor Ocampo states, “in strict financial terms, this is

the least severe crisis that Latin America has endured" (Ocampo, 2012). Nevertheless, we must remark that remittances suffered a big slump that affected Mexico and Central America.

The transmission channel this time was rather trade, but again with a particular feature: commodities, or rather non-oil and non-tropical agriculture products, had a good performance and recovered very quickly after the crisis, and hence, trade was not a transmission channel for many countries in Latin America, although as we will see below, this is not enough to explain the good performance. Note, also, that Mexico is not an exporter of commodities as it was by the mid of the century, but its fiscal revenues depend very much on oil exports, which was the commodity whose price suffered strongly.

GDP had the best performance ever during a crisis, and the behaviour after 2015, if disappointing, it does not show crisis symptoms.

Inflation, even if high for some countries, did not experience any big jump during the crisis, which is another extraordinary case. Among the two countries of our interest, Mexico was the best performer, whereas for Argentina we must cast a doubt about their figures during Cristina Kirchner's administration. The beginning of the Macri Administration was positive in reducing inflation, although from 2018 it started to pick up again, but that goes out if our time range.

The risk premium remained stable, and, contrary to other occasions, Latin America was not expelled from the financial international system.

Capital outflows remained low, showing that it was not only the international financial system, but companies did not reverse investment in the region during and after the crisis, maintaining also the levels of foreign direct investment (FDI).

Finally, inequality, even if at a slow pace, has experienced a steady decreasing trend since the beginning of the century, with no precedent in the twentieth century, albeit, with a relatively low-income share of the bottom 40% (Astorga Junquera, 2016; p. 60).

And before we move on to the explanatory variables, a final chart directly taken from ECLAC/CEPAL annual report “Social Panorama” 2019. Chart 43 below shows the evolution of population by per capita income strata, and we can appreciate a decrease of 15 percentage points in the share of low-income strata.

CHART: POPULATION SIZE, BY PER CAPITA INCOME STRATA (MILLION PEOPLE)

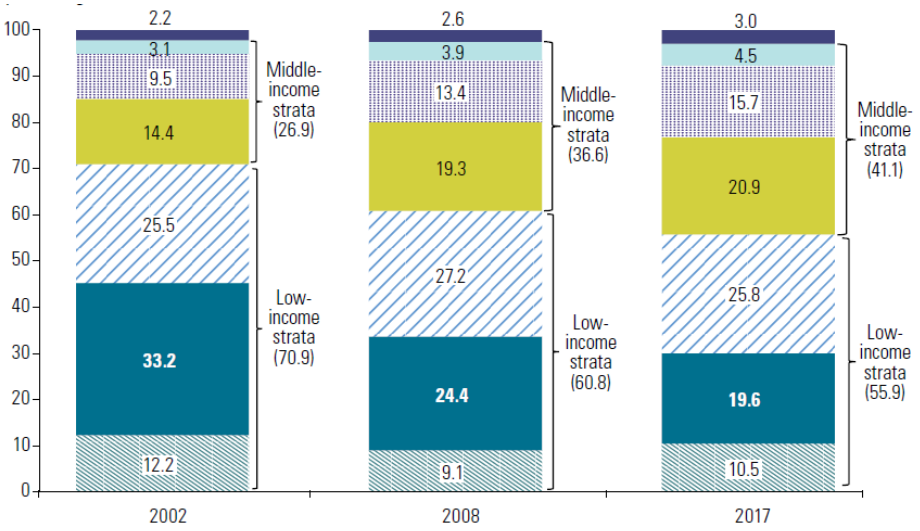


**CHART 43 SOURCE: ECLAC/CEPAL SOCIAL PANORAMA 2019**

This is a huge reduction, in a context of growing population, because, important as it is this reduction, the critical figure is not that 19 million people were taken off from vulnerability and poverty (see chart 44 below), but that a huge mass of 114 million people were added to the middle income strata, as per international standards, and by the way, also, a significant increase in the high-income strata, from 11 million people in 2002 to 18 million people in 2018.

Let us insist on this: a total increase of 120 million people accessing the middle-income and high-income strata, means a colossal mass of people who have a better access to education and skill development and would aim for their children a better education too. It typically entails better employment opportunities and fostering an environment conducive to entrepreneurship and small business growth, as well as for large companies and multinationals to invest with confidence. It is definitively a huge improvement in the human capital of the region, which as we saw in the explanation of our theoretical framework is critical

both for New Institutional Economics (what is called the stock of knowledge) and for Modernization Theory.

CHART: POPULATION SIZE, BY PER CAPITA INCOME STRATA (PERCENTAGES)

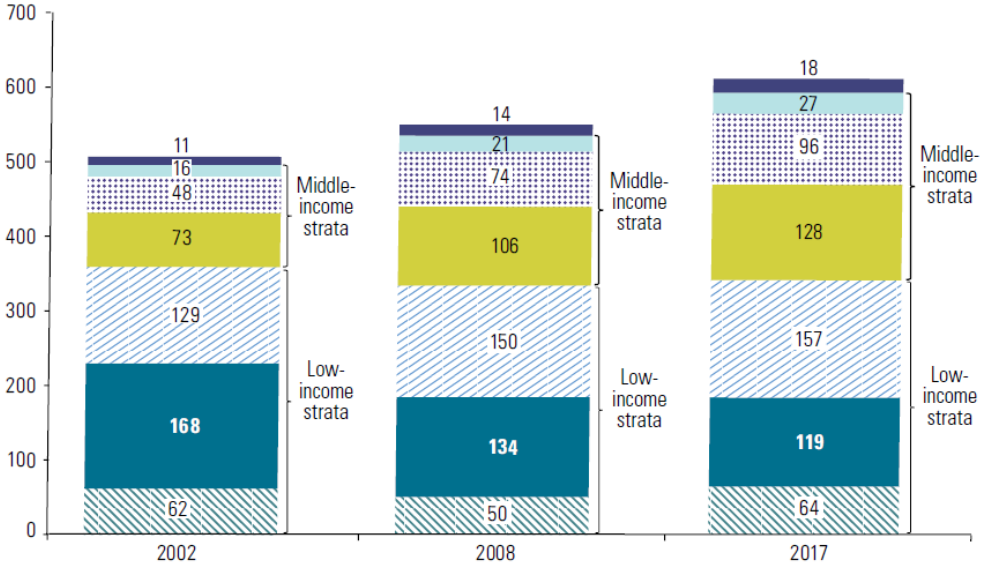


**CHART 44 SOURCE: ECLAC/CEPAL SOCIAL PANORAMA 2019**

Let us also note that 120 million people more within the middle-income and high-income strata means a colossal mass of consumers who will level up the floor of household's consumption, i.e., the "C" in the national income identity formula[53], and thus softening the ups un downs of GDP. This is extremely important and has been noticeable since the beginning of the century, as we have said above.

This chapter has proved that there are positive underlying changes and trends in the region, taken from reliable data and reports, that the headlines in the news do not cover, but that show that there are reasons to think that a structural change is undergoing[54].

53 We are referring to the well-known formula Y = C + G + I + (EX – IM), where Y is also known as GDP, and C is consumption

54 We must recall here that we stop our research in 2019, and that Mexico and Argentina had very different performance after 2019. The Macri Administration failed to lower inflation further down after 2018, and the new Administration of Alberto Fernández worsened the situation, due to the lack of fiscal responsibility

# V. EXPLORING THE REASONS BEHIND THE PERFORMANCE. INDEPENDENT VARIABLES

It is now time to examine the reasons behind this positive performance in the region during the crisis.

As we have consistently emphasized, a multidisciplinary and multivariant research approach is crucial for understanding the causes of the relative strong performance of Latin America during the crisis. While the proximate factors may be economic, it is equally important to consider the deeper political and institutional roots. In this chapter, we will thoroughly analyse these underlying causes, considering in our multidisciplinary and multivariant approach the different nature of our variables, but we will first outline the expected effect of each on them on the dependent variables described in section IV.

Let us note that social sciences and particularly economics, since Alfred Marshall, are disciplines that deal with balances and imbalances. Social sciences deal with equilibrium (Robbins, 1937) (Parsons, 1961) (Melvin, 1957), and rarely attribute a single cause to specific outcomes. In order to study the effects of the different variables, economic models usually use the condition “other things being equal” or *ceteris paribus*. However, as we highlighted in the introduction of this dissertation (page 18), the real world operates differently: all variables interact simultaneously, either compensating or reinforcing individual effects.

Our hypothesis considers this simultaneity of factors, but we must advert that not all independent variables have effects on all dependent variables. We will see that while factors of economic nature have a direct effect on the dependent variables, those of political and socio-cultural nature have an indirect impact on them, through a mechanism of direct impact on one or several of other independent variables.

This is why, we can consider economic variables as proximate causes for the good performance of Latin America during the crisis, whereas the other factors

are rather the ultimate causes, and all along this chapter, we will be scaling up on those causes by analysing first those of economic nature, next those of political nature and ultimately those of socio-cultural nature.

Moreover, in some cases, the independent variables have no apparent effect on the dependent variables. They are neutral, which is another reason why we need the multivariant approach.

In sections below, we will individualise and stylise for each level of independent variables the expected effects on the dependent variables, but for the moment, let us outline the relationship among them in figure 45.

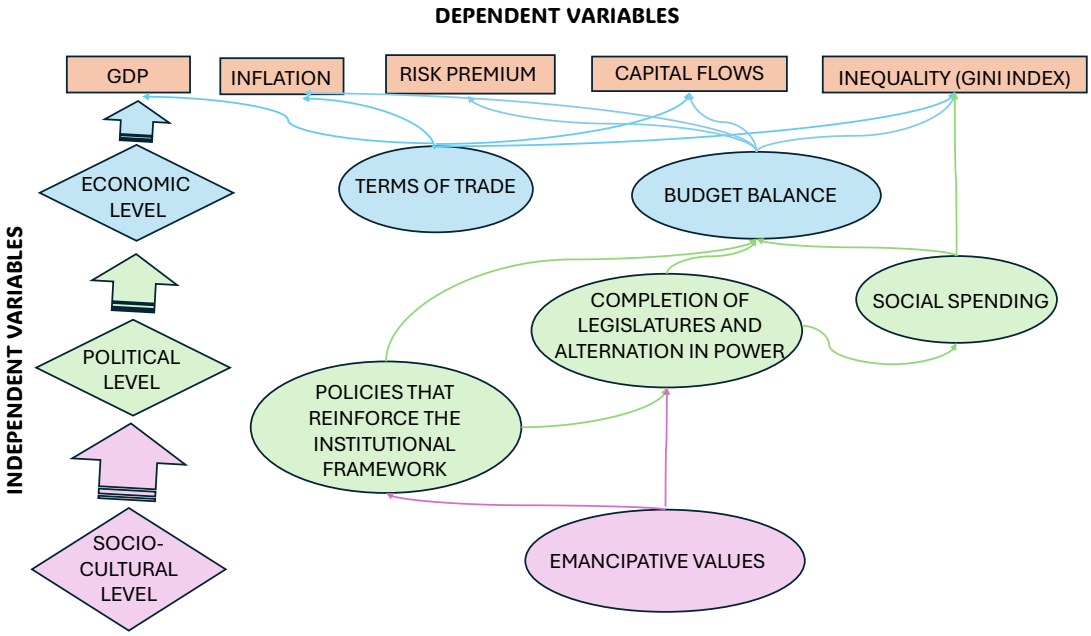


FIGURE 45 FLOWCHART OF RELATIONSHIPS BETWEEN DEPENDENT AND INDEPENDENT VARIABLES

The two variables at the economic level have a direct effect on all dependent variables, but we observe that variables at the political level have a direct effect on the budget balance and from there to the rest of the dependent variables, and finally, the adoption of emancipative values have a direct effect on two of the political variables.

Thus, in the following sections, our analysis will progress from examining the immediate causes to exploring the underlying causes. As noted in section 2.3, institutional or structural change is a gradual process, often slow and prone to setbacks and diversions due to both internal and external factors. For example, if policies strengthening the institutional framework are undermined, it could disrupt the completion of legislative terms (in extreme cases, leading to a self-coup), which in turn would affect individuals' access to political decision-making.

Alternatively, an external factor, such as an improvement in geopolitical conditions (which seems challenging today but occurred, for example, at the end of the Cold War), could contribute to the consolidation of the process towards open access orders.

## 5.1 AT THE ECONOMIC LEVEL

In our view, there are two economic variables that are decisive in the good performance of Latin America during the great financial crisis, one of which is structural in nature, the budgetary balance sheet, and the other of a conjunctural nature, the terms of trade. We consider the terms of trade to be conjunctural, despite the weight of commodities in the trade basket of most of Latin American countries. We understand that this is debatable, as for some countries, like Argentina, the weight of commodities in the export basket is so large that terms of trade may be considered structural, but we will see that all economies, and particularly Mexico and Argentina have a rather open economy[55], and therefore the terms of trade are subject to many variables that makes it conjunctural. Also note that terms of trade is not necessarily one hundred percent an external. It is not only a function of prices, but also of the export basket of each country.

A third economic variable, embedded in the terms of trade, that contributes to explaining the strong performance is the openness of the economies. As we have seen above, the economies are much more open now than they used to be in the

55 We must note that the international reserves problem in Argentina, has lately restricted de fact trade, but that does not mean that the economy is closed for good.

1980s, more diversified, and not so dependent on commodities as they used to be.

As for the effects of this set of variables on the dependent variables, for the purpose of simplicity, we will show a table showing whether the effect is positive (+), negative (-) neutral (0) or mixed in each case (+/-).

| | GDP (up) | Inflation (up) | Risk premium (up) | Capital (in) flows | Inequality (Gini index up) |
|---|---|---|---|---|---|
| Terms of trade (positive) | ++ | + / - | 0 | + | + |
| Budget balance | + / - | - | - | + | + / - |

The terms of trade will generally have a positive effect on GDP growth, and a negative effect on equality (see below for further discussion), whereas the effect on the other dependent variables is not so clear. Inflation could be positively affected as long as import prices remain relatively low, but it may cause a demand pull inflation if the internal demand increases. As for capital inflows, may cause some positive effects if foreign investment is attracted by the industries that are contributing to the positive terms of trade.

The budget balance is a balance in itself, and therefore its effects on the dependent variables depend on the nature of the balance. If the budget balance is reached through a cut in expenses, the effects are different from a balance that is reached through increasing the revenues. In section 5.1.2 below we analyse the type of budget balance reached (as a general trend) in the region, and in the table above, we are considering the global concept of budget balance, as a determinant of public spending.

For GDP, depending on the sort of budget balance, the effect can be positive or negative, as we just mentioned, as well as for inequality. If the budget balance is caused by a cut in expenses, it will generally have a negative effect on equality. For inflation, in general, a budget balance will have a positive effect to reduce inflation. But the most important effect of a budget balance, no matter its nature, is on risk premium and capital inflows. A budget balance, which does not mean

zero, but within the limits of the established fiscal rules (see below), is a sign of prudent policy, and therefore an incentive to invest in that economy. The effects of the budget balance on the risk premium is negative (it will reduce the risk premium), and the effect on the capital inflows will be positive, always considering other things equal.

Let us analyse each case in depth in the next two sections.

### 5.1.1 Terms of trade. Dependency theory revisited

Terms of trade is a critical aspect in this dissertation, because it is commonly argued that this is the main if not the only reason why Latin America performed so well in the great financial crisis of 2008, but as we defend in this dissertation, we believe that there is something else. We will approach this section as a proof to the contrary: We ascertain that positive terms of trade were concurrent in Latin America with the great financial crisis of 2008, but there have been periods of positive terms of trade on other occasions, and the effects were never as positive and as diversified as this time. It was not only GDP that behaved well, but as we have seen when analysing the dependent variables, inflation and inequality behaved properly during this episode of positive terms of trade. This is unprecedent in the region, and in particular it is very different from what happened in the last boom episode prior to this one, in the 1970s. Let us analyse the issue in the following pages.

Terms of trade (TOT) is defined as the ratio between a country's export price index and the import price index. If the export prices increase more than the import prices, a country has a "positive terms of trade", as for the same amount of exports, it can purchase more imports[56]. Note that *terms of trade* refers only to relative prices of exports to imports. It is not the current account balance. It does not take into account the quantity a country export whatsoever. The theory says that an improvement in the terms of trade increases a country's welfare, while a

56 This is the definition given by the OECD. Last seen 12 Dec 2022 https://data.oecd.org/trade/terms-of-trade.htm#:~:text=Terms%20of%20trade%20are%20defined,it%20can%20purchase%20more%20imports

worsening of the terms of trade reduces its welfare (Krugman et al., 2015: chap 6).

But the theory also says that, under the standard trade model, other things being equal, export-based growth will deteriorate the terms of trade of the exporting country and benefit the rest of the world, while import led growth will improve the importing country terms of trade at the expense of the rest of the world (Krugman et al., 2015: chap 6). Let us see what this means for countries whose exports depend very much on commodities and natural resources.

In countries where exports are closely linked to raw materials or commodities, the terms of trade are, obviously, greatly affected by the price of those raw materials, and therefore, in periods of commodity price boom, those countries' terms of trade improve.

Let us remember that earlier in chapter IV, we defined economic growth as the shift outwards of the possibility frontier of a country, but attention! As we said before, the theory also says that when a country grows disproportionately in the direction of the goods it exports, other things being equal, the country will end up worsening that country's terms of trade, for the negative effects that an excessive supply of that particular good may have first on the real exchange rate, that will weaken productivity growth on other sectors of the economy and favour a (miss)allocation of resources, leaving the economy largely dependent on the particular natural resource. This is commonly known as the Dutch disease.

More specifically, in developing economies, the terms of trade may be an Achilles' heel for economic growth, and more importantly, an improvement in the terms of trade does not automatically imply an improvement in the country's wellbeing especially when their exports are heavy-reliant on commodity goods. For instance, the theory says, as we have mentioned above, that in those countries, an improvement in the terms of trade will result in an increase in inequality, because the ownership of the natural resources is concentrated on a few hands, and revenues are skewed towards them (Prados de la Escosura, 2007: 293) (Goderis & Malone, 2011).

In Latin America's economic analysis, the terms of trade have been at the centre of economic discussions, especially since in 1949, economist Raúl Prebisch, in parallel with Hans Singer, set up a thesis which explains that there is an inescapable trend towards deterioration of terms of trade for Latin American and other “peripheral” economies (Prebisch, 1949)[57]. Focusing on the classic schema of the international division of labour, Prebisch introduced the duality core-periphery, to highlight that Latin America was part of the periphery of the world economic system, whose role was that of producing food and raw materials for the industrialized nations, which constitute the core of the world economic system. He then used a previous report by the United Nations Economic Commission to analyse the ratio of prices of primary goods to those of manufactured goods from the 1870s to 1947 (United Nations EC, 1949), and observed that the trend was downward, with short periods of reverse trend, concurrent with the two world wars that were not enough to reverse the general downward trend: with the same amount of primary products, only 68% of finished manufactures which could be bought in the1870's were to be bought in 1947. Prebisch considered this phenomenon contrary to the schema of the international division of labour, that forecasts that the benefits of technical progress will be fairly distributed among the community of countries, thanks to trade and the division of labour: “Exports from Latin America, however, are largely dependent on fluctuations in income in the United States and Europe and on their respective import coefficients for Latin-American products” (Prebisch, 1950; p. 45).

Moreover, as the above-mentioned study of prices show, manufactured products will tend to increase their price faster than primary products or food. The production of primary products is subordinated to that of industrial products and therefore the economic undertakings of countries that are basically primary producers are also subordinated to industrialized countries, for the good and for the bad, and the income in the central countries “will increase relatively more than productivity, whereas in the periphery, the increase in income will be less than that in productivity” (Prebisch, 1950: p. 10)

57 The English version of this document was extracted from the original report in Spanish and addressed to the Secretary General of the United Nations in 1950 (Prebisch, 1950)

The United Nations report failed to give an explanation for the deterioration of terms of trade in the Latin American region, but it was certain that the increases of productivity in the periphery were lower than in the centre, for the simple reason that the living standards in industrialized countries raised more rapidly in the period than in primary producers (United Nations EC, 1949: p. 116)

Prebisch rightly observed that the gains in productivity in industrialized nations were reflected not in lower prices, but in higher incomes, both for entrepreneurs and workers (as well as other benefits like less working hours) and therefore, the only way for Latin American countries to benefit from the gains of technical progress, the only way to raise living standards for the people in the periphery, is industrialization at the cost of imports, which would imply the raising of tariffs owing to the higher cost of internal production, but that would be justified by the collective gain from employment stability (Prebisch, 1950: p.53)

This thesis is at the heart of what was later known as dependency theory and encompasses with the structuralist Marxist approach led by Paul Baran and Paul Sweezy, as well as the analytical Marxist approach led by John Roemer and others.

We are not going to discuss here the Marxist approach, but we are going to focus on the dependency theory itself, as it was formulated by Fernando Henrique Cardoso. It is particularly interesting to review this, for Mr Cardoso was a theorist first, and a politician with a long political career in his home country, Brazil, where he eventually became minister of finance and later president from 1995 to 2002. His masterpiece “Dependency and Development in Latin America” (Cardoso & Faletto, 1971)[58] has nurtured thousands of sociologists and economists eager to find an ultimate explanation for the economic lag of the region. He expanded Prebisch’s thesis to cover sociological aspects, as the specific patterns of class relations subsequent to the penetration of the technical progress from the centre to the periphery, the dominant position of multinational companies and the power of the financial sector, that was previously controlled by the colonial powers. The

58 The book was written in Santiago de Chile between 1966 and 1967 and first published in 1971, and it has a very pleasant narrative, but not a single table or statistical reference!

underdeveloped economies are characterized by a non-diversified production system, with the preponderance of the primary sector and above all a very limited internal market, and therefore, the key for economic growth for those countries, would not be so much exports, but the development of the domestic market.

The theory openly criticised, from a Latin American perspective, Rostow's five stages of economic growth (Rostow, 1960), that basically considered that developing countries should follow the pattern of Western Europe and the US and the different stages in order to become developed economies ignoring the specificities of the particular developing economy, the fact that there is a periphery and a core, the fact that the hegemonic countries for the region were first Spain and Portugal, then England, and later the United States (Cardoso & Faletto, 1979; chap 2) and we should add, ignoring also the fact the world changes and the initial conditions that affected the transition from the phase of "take-off" to maturity, as it is expressed in Rostow's theory, are significantly different in the 1940s compared to the beginning of the twentieth century, where Rostow places this transition for most Western countries, including the United States, Germany, France or Sweden, to name but a few of them. The world, as we have been insisting all along this dissertation is non-ergodic and determinism is far from being a good driver to study development.

Note that this theory was developed in the late 1960s, while Fernando Henrique Cardoso was in exile in Chile, where he met Chilean scholar, Enzo Faletto, who co-authored the work. Standard modernisation theory was in vogue by those years and dependency theory was a sort of reaction against that theory. If Lipset and others had predicted the advent of democracy after a period of economic growth, that was not the case in Latin America. Dictatorships were commonplace in many countries in the region during that and the following decade. Mr. Cardoso himself was exiled in Chile from a military regime in Brazil. For Cardoso and Faletto, underdevelopment took place when capitalism managed to link in one single market, economies with different productive systems, which came to occupy different positions in the global structure of the capitalist system. "Thus, between developed and underdeveloped economies, there is not only a difference in the evolutionary phase of the productive system [as Lipset or Rostow

would think], but also a difference in the function or position within the same international economic structure of production and distribution. This withholds, on the other hand, a defined structure of relations of domination"[59] (Cardoso & Faletto, 1979; p.23). And they added "The objective of this essay is explaining the economic processes as social processes, and therefore, it is required to find a theoretical intersectional point where the economic power is expressed as social domination, i.e. as politics" (Cardoso & Faletto, 1971; p.20)

Nevertheless, interestingly enough, the authors do not specifically criticise Seymour Lipset. They do not mention Lipset one single time in their book, but they specifically mention Rostow, as we have said above. And we must also point out, that as we have seen in the description of our theoretical framework, modernization theory has evolved very much since those times. Automation or deterministic stances have been relativized and the introduction of values in the equation and the tools to measure them are a fundamental novelty that has allowed modernization theory to have larger explanatory capacity, especially if we combine it with the new institutional economics, as we are trying to accomplish in this work.

Also interestingly enough, the rhetoric that the authors used in the book about domination and multinationals, was, in the case of Cardoso, forgotten, when he became minister (and president of Brazil) twenty years after the publication of this work. That is to acknowledge, that both Prebisch's and Cardoso's works were, of course, products of their time, but when you become the decision maker, you must also acknowledge that you cannot govern only with theories, because we have to adapt theories to our non-ergodic world.

All in all, the concepts of core and periphery are very interesting and shaped the economic policy of the region for many years supporting and giving a new impulse to the state-led industrialization period (1929-1980) after World War II, that we have described in chapter III, but the history of the twentieth and the twenty first centuries show that the centre is part of the dynamics of the world economy, and

59 Translation and brackets by the author. Note that relations of domination, or authority relations come once again on top of the table when analysing the economic process

therefore, the periphery also moves accordingly. For instance, Argentina, despite its dependence on agricultural commodities has experimented a tremendous growth in the services it exports in the last twenty years, and moreover, ICT[60] services are the largest stake of service exports since 2008 and they have multiplied by 5 since 1995, when they were only 2,26%. ICT services now account for around 10% of Argentinian total exports, nearly matching solid soybean residues, which is the largest stake in total exports. See figures 37A and 37C below

ARGENTINA EXPORTS BY PRODUCT, YEAR 1995

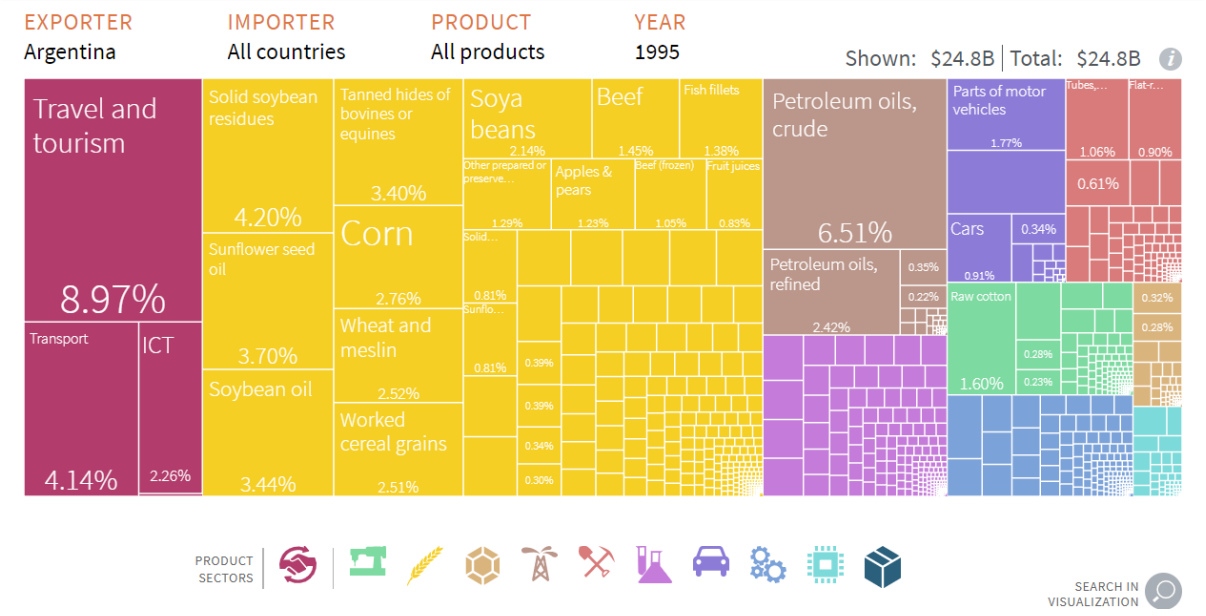


**FIGURE 37A SOURCE: ATLAS OF ECONOMIC COMPLEXITY. HARVARD UNIVERSITY**

But let us note here, that the model considers "other things being equal", and it does not ponder the timeframe. The effects of time on the economic conditions. We have just seen above how Mr Cardoso realized that his rhetoric of the 1970s was not valid in the 1990s, which implies that if you implement the appropriate

60 ICT corresponds to information and communication technologies according to the Harmonized System code (HS) and it includes items such as telecommunications services, IT system design, software development, and related tasks), and the remote provision of ICT-enabled services, such as human resource management, payroll, accounting, architectural design, research, editing, education, and so on. See https://unctad.org/system/files/official-document/tn_unctad_ict4d03_en.pdf. Last visit April 2023

policies, affecting other factors in the economy, the Dutch disease may be avoided. Let us analyse those policy resources in the next paragraphs.

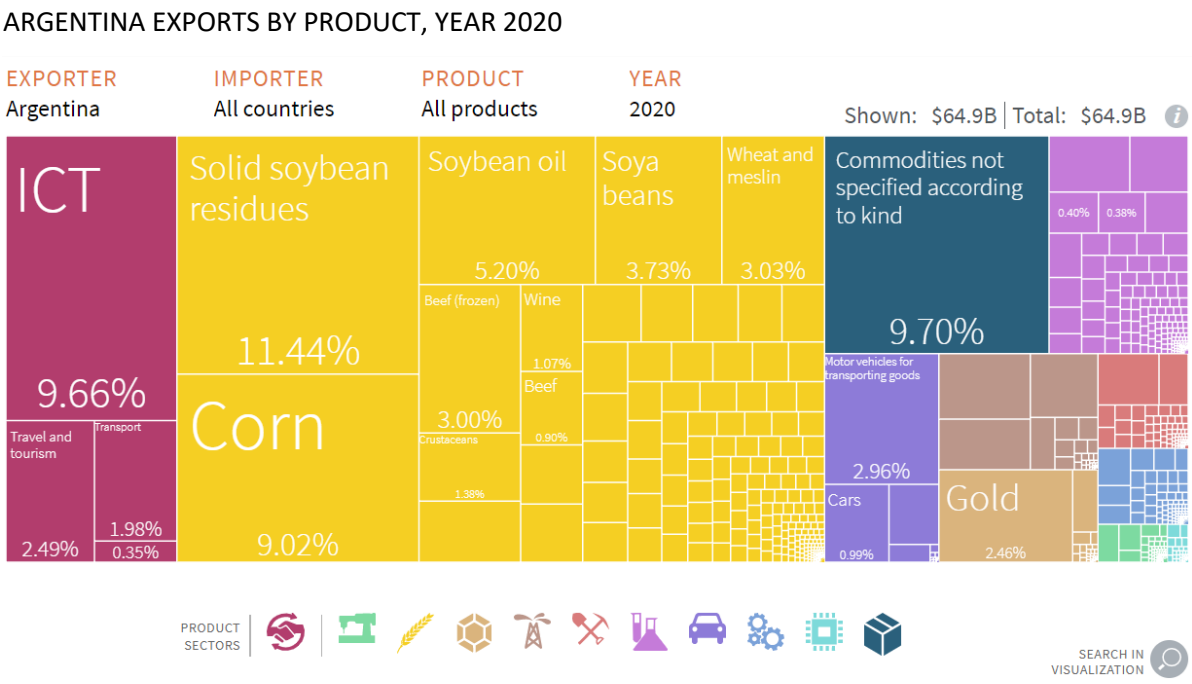


FIGURE 37B SOURCE: ATLAS OF ECONOMIC COMPLEXITY. HARVARD UNIVERSITY

On the one hand, those countries have little or no leverage at all over their export prices, because the prices of commodities are fixed at world markets, and therefore, terms of trade are basically subject to exogenous shocks, and as a consequence, macroeconomic policies may be out of pace with the supervened cycle (Kose, 2002), moreover, the exchange rate regime is critical in determining the effects of a variation in the terms of trade. A flexible exchange rate regime will help a particular country to cope with a terms-of-trade shock by absorbing the effects of the shock on growth through the adjustment of the exchange rate (Broda & Tille, 2003).

It is precisely a (miss)adjustment in the exchange rate that is behind the apparent miracle that experimented Mexico between 1990 and 1994. By that time, Mexico was considered as the advanced pupil in the region after the resolution of the debt crisis. The presidency of Carlos Salinas de Gortari had brought stability to the country and investment was flowing in. It was common to listen in all

conferences and forums the assertion “Mexican miracle”, but still growth was disappointing. By 1993, exports were showing clear signs of a slowdown, showing that Mexican goods were expensive in the world markets, and foreign reserves were running out of the country. Some economists, as Rüdiger Dornbusch were advocating for a devaluation, but the Mexican government was reluctant to do so, among other things, because they were in the process of closing the signature of NAFTA, and a devaluation would have sent a bad signal and risk the rejection by the US Congress.

In 1994, the Mexican government was still facing a persistent loss of foreign reserves. NAFTA was already in force, and this time, yes, the Mexican government was eager for action. They thought of increasing the interest rates but considering that this would damage household’s spending and businesses, the government finally went for a devaluation. That was the sort of action suggested by the experts, but it did not work. In fact, the devaluation triggered what was later called the Tequila crisis. The reason why it did not work was that the government was not brave enough and it fell short with the devaluation (Krugman, 2008; p. 46).

On the other hand, we need to consider the short and long-term effects of this variations. In a very interesting article appeared in 2012, Paul Collier, an expert in development economics, and Benedikt Goderis (Collier & Goderis, 2012) show, through an empirical analysis of around 120 countries, covering the period from 1963 to 2008, that in the short-run, an improvement in the terms of trade is always good for growth, but in the long-run, governance has much to say in the final outcomes. There is a trend to devote all the revenues from natural resources to consumption, one way or another (public and private), rather than to the benefit of future generations, and recent findings have outlined that even in developed countries, conflicts may arise with the spatial assignment of ownership of a particular resource (Collier, 2017).

Hence, to the question of whether an export-led growth is good or bad, the simple assertion from the standard trade model that it is bad, is not acceptable in the complex non-ergodic world we live in. The answer, as often in economics, is that

it depends. And in this case, it depends on how the growth, or rather how the income from that growth is managed.

The theory had all its logic, except for, as we have been repeating throughout this dissertation, our world is non-ergodic. Under human action, there are events that cause such long-term forecasts to derail and certainly, throughout the last third of the twentieth century and in the early twenty first century, there have been periods when Latin America's terms of trade as a whole have improved, even though commodity exports continue to have a very significant weight in the region, but prices did not depend on the supply of one particular country and terms of trade did not deteriorate. Events such as the Arab Israeli conflict led to rising oil prices in the early 1970s and more recently, the excessive growth of a giant like China has, again, favoured an increase in commodity prices and hence of terms of trade, but as we have seen above, it did not bring about inequality nor excessive imbalances in the economy.

Having said that, professor Prebisch was right to seek industrial development in the region, because there is a truism that does not fail: "don't put all your eggs in the same basket." The comparative advantages that David Ricardo was preconising are not immutable. Again, human beings take actions that produce changes in the initial conditions, and nothing should let us think that there can be no clusters of productivity that allow an export development of manufactured goods[61]. Who could tell us in the early 1990s that Spain in 2013 was going to be one of the first exporters of windmills for electric power production or that Brazil would be a leader in the mid-range aircraft segment, or that we are talking today about the phenomenon of multilatinas (Santiso, 2013), which are corporations that have a relevant presence in several countries in the region and even outside it, whose business areas are not limited to commodities[62].

61 That's why in the 1990s it emerged from Harvard Professor Michael E. Porter, a new concept, the competitive advantage, which aims to replace David Ricardo's old concept.
62 A ranking of multilatinas companies, based on their ability to leave their national borders can be viewed on the following website https://www.americaeconomia.com/negocios-industrias/multilatinas/ranking-multilatinas-2021-la-globalizacion-no-se-detiene Last visited 28 Nov 2022

Chart 46 below, shows the terms of trade since 1980, for Argentina, Mexico and the set of Latin American countries as defined by ECLAC. The trend is not clear at all. It can be argued that for Argentina, the maximum attained around 2008 is a bit lower than the maximum of 1980, but this is not the case for Mexico nor for the ensemble of Latin America. Note that in 1980, the chart shows the highest pick in terms of trade for Argentina, and a relative high pick for Mexico, in the series, and that did not prevent the 1982 debt crisis from coming and affecting the region in a dramatic way.

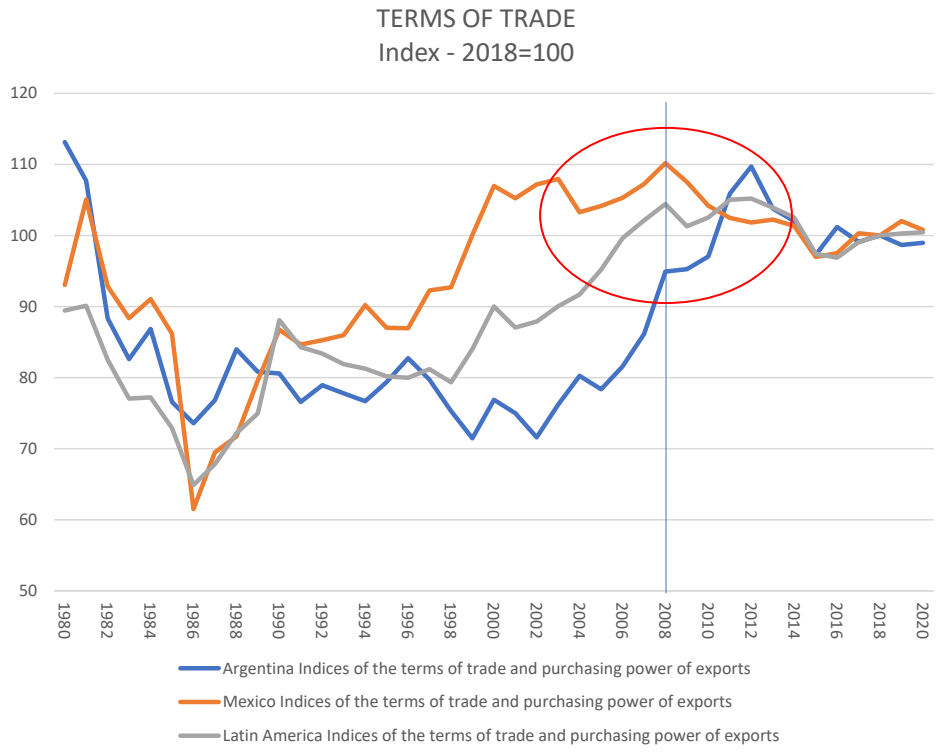


**CHART 46 OWN ELABORATION. SOURCE CEPALSTAT. INDICATOR ID 883**

It is worth considering at this point another comparison. The IMF has recently incorporated a new database for terms of trade, but this time focused on commodities (Gruss & Kebhaj, 2019). Originating from a country-specific commodity price index, the database incorporates a commodity terms-of-trade

index, that allows for the analysis of the windfall gains (or losses) of income derived for the trade of the main commodity a country export[63].

The commodity terms-of-trade index is also akin to reflect the fact (1) that many countries export agricultural or other non-energy commodities, for which, by the way, the global market share tends to be low, and therefore prices are exogenous, and (2) those same countries import energy commodities, hence, a generalize increase in commodity prices does not necessarily imply an improvement in the terms of trade.

Chart 47 shoes this comparison for Argentina, Mexico and the ensemble of Latin America, considering the commodity terms of trade weighted by the ratio of net exports to GDP. The data available from the IMF considers index base 100=2012, but the chart is corrected to make it base 100=2018, to compare on the same basis as the previous chart of general terms of trade. The results are not conclusive. For Argentina, there is a positive trend from 1980, but for Mexico, it is the opposite, the same as for the ensemble of Latin America. This shows the complexity of commodities.  Neither Argentina nor Mexico have a dominant position in their respective commodities and

63 The database can be downloaded from https://data.imf.org/?sk=2CDDCCB8-0B59-43E9-B6A0-59210D5605D2. Database version 14 April 2023

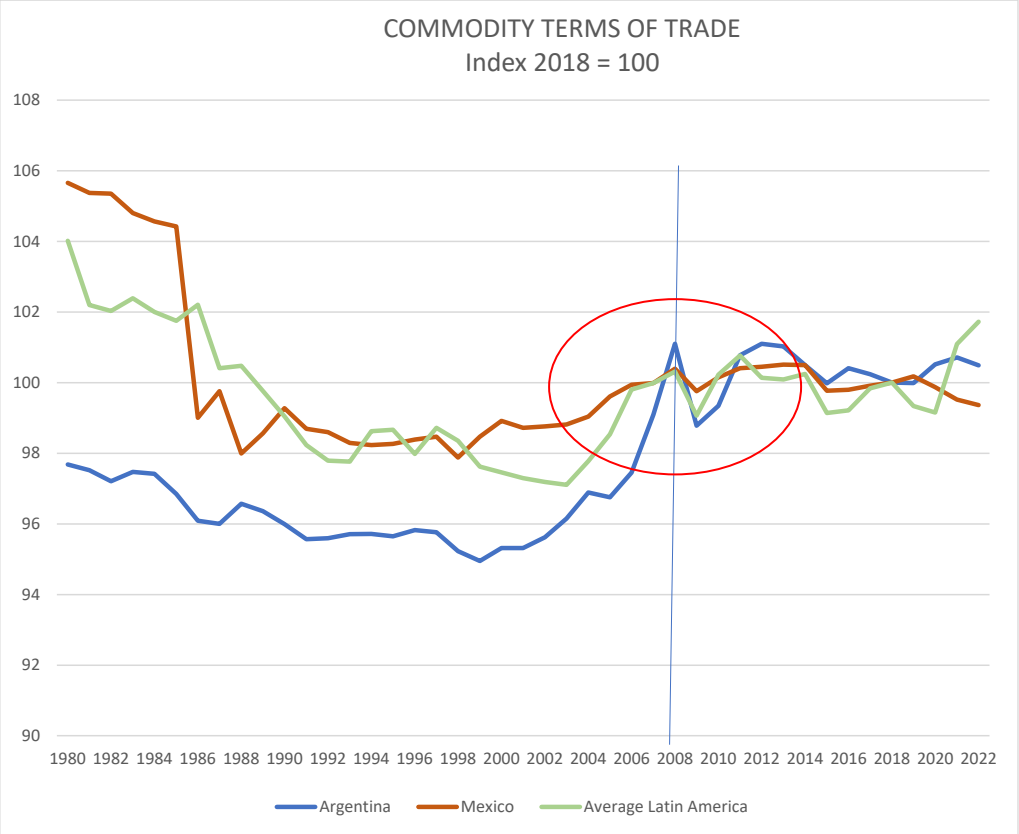


**CHART 47 SOURCE: OWN ELABORATION FROM DATA.IMF.ORG. INDICATOR ID XM_GDP**

All this said, let us state that we are not, by all means, disdaining the work of ECLAC and Raul Prebisch in particular. It is a scientist's mission to develop theories to anticipate behaviours in the future, but it is arguable whether in Economics, the laws are universal. Or rather, they may be universal, *ceteris paribus,* other things being equal. To speak more precisely, rather than saying that Raul Prebisch's theories have proven false, what we should say is that the political action derived from his theories, among others, together with a changing international context in which demand for commodities has become more important, have made Prebisch's predictions unfulfilled. Again, the institutional component proves to be important here. It should be noted that other countries, such as Australia (50% of its exports are commodities) or Canada (30% of its

exports are commodities)[64], with different institutional frameworks, but also dependent on the export of raw materials, have made better use of changes in the international landscape. At this point, we can assert that the key is not what a country exports, but how the country exports it, and the factor productivity underlying the value of exports.

Going back to the issue at hand, what we see in the recent global financial crisis, and this is on everyone's behalf, is that good commodity price performance has favoured Latin America's resilience to the crisis. In the years leading up to the global financial crisis of 2008, there was an episode of sharp increases in commodity prices, especially from the second half of the first decade of the twenty first century.

However, this was not the only period of commodity boom since the last third of the twentieth century and, as we announced at the beginning of this section, the region's economic stability results are far from similar. We will analyse this further below.

Unfortunately, there is no access to a digitalized terms-of-trade database that starts earlier than 1980, so for the purpose of our research, i.e., compare different episodes of commodity price booms, we will use an alternative set of data. The most interesting analysis of commodity prices booms and busts has been undertaken, in our opinion by Andrés Velasco and Luis Felipe Céspedes, who have analysed episodes of commodity shocks in Latin America and other regions. They have different works on it, but we will take their article published in 2014 in the Journal of Development Economics as a reference (Céspedes & Velasco, 2014).

They have created a commodity price index, weighted by the importance of one particular commodity for one country, considering alternatively its share in total production and in total exports for the period 1960-2010. They have studied the

64 Share of exports according to International Trade Statistics yearbook 2019 https://unstats.un.org/unsd/tradekb/Knowledgebase/50012/International-Trade-Statistics-Yearbook-ITSY Last visited 14 Jan 2021

evolution of this index in the period 1960-2010, and they have identified commodity boom episodes, i.e., periods of significant increases in commodity prices. They define a commodity price boom as a period in which commodity prices, measured by the index above mentioned, increase by 25% above its trend, and they define that trend as the centred moving average with a fifty-year window, and the episode ends when the index comes back to a level lower than 10% above its trend. In our opinion, the relevance of this analysis stems from the fact that it is a long-term analysis: an index constructed after observing data from 1960 and considering a moving average of fifty years to determine the trend. This is not the typical short-term view that can be so misleading.

Specifically, for the countries under this study, Argentina and Mexico, two boom periods in commodity prices have been identified since the 1970s. One episode goes from 1973 to 1985 (except for Chile) and the other from 2004 to 2008 and then, with a short slowdown in 2008 due to the global financial crisis. Commodity price boom period number 2 is precisely the period under our study.

Table-Figure 48 below sets boom periods in commodity prices and its durations, according to the work of the authors cited.

**Table Episodes of commodity price boom**

| Episode | Country | Start | End | Max | Comm price index increase % | Duration to max |
|---|---|---|---|---|---|---|
| ARG1973 | Argentina | 1973 | 1985 | 1980 | 30.7 | 8 |
| ARG2003 | Argentina | 2003 | 2009 | 2008 | 51.3 | 6 |
| BRA1973 | Brazil | 1973 | 1981 | 1980 | 26.9 | 8 |
| BRA2007 | Brazil | 2007 | 2009 | 2008 | 11.0 | 2 |
| CHL1970 | Chile | 1970 | 1983 | 1980 | 15.3 | 11 |
| CHL2006 | Chile | 2006 | 2009 | 2008 | 38.9 | 3 |
| COL1973 | Colombia | 1973 | 1985 | 1980 | 61.2 | 8 |
| COL2005 | Colombia | 2005 | 2009 | 2008 | 47.6 | 4 |
| MEX1974 | Mexico | 1974 | 1985 | 1980 | 95.1 | 7 |
| MEX2004 | Mexico | 2004 | 2009 | 2008 | 67.8 | 5 |
| PER1974 | Peru | 1974 | 1985 | 1980 | 65.4 | 7 |
| PER2005 | Peru | 2005 | 2009 | 2008 | 54.3 | 4 |
| VEN1973 | Venezuela | 1973 | 1985 | 1980 | 243.2 | 8 |
| VEN2004 | Venezuela | 2004 | 2009 | 2008 | 73.1 | 5 |

Average duration of boom periods before 2000:
total 12.2 years. To the max 8,14 years
Average duration of boom periods after 2000:
5.1 years. To the max: 4,14 years

**FIGURE 48 SOURCE: EXTRACTED FORM CÉSPEDES & VELASCO, 2014**

Nonetheless, the countries under this study have not always taken advantage of the bonanza in terms of trade, nor have the benefits of this circumstance been extended to the traditionally disadvantaged layers of society. It has not been so all along the twentieth century, and in particular, the bonanza of the boom of the 1970s did not reflect economic stability at the time. Let us compare the two latest commodity price booms episodes, which we call “commodity price boom 1”, that coincides with episodes ARG1973 and MEX1974 of the table above, and “commodity price boom 2” that coincides with episodes ARG2003 and MEX2004.

In the case of Argentina, the main export commodity is soybeans. We could not get access to the index built in the afore-mentioned paper, but we have made a comparison of GDP growth with the price index of soybeans in Argentina since 1970, considering the price boom episodes in table-figure 38 above. This is reflected in chart 49 We first observe that episode ARG1973 in Argentina starts, in effect, with a huge rise of the soybeans price index, but it passed rather unnoticed in terms of GDP growth and more importantly, it did not prevent the hardship of the debt crisis of 1982, which as we saw above, was not so critical in terms of GDP, but yes in terms of debt, capital outflows and inflation. On the political side, let us recall that this was the time of Peron’s second government, who won the 1973 elections, and that before the boom ended, a regime changed occurred in Argentina. This is a proof to the contrary, that a commodity price boom does not automatically mean a growth in GDP, and needless to say an improvement in other economic indicators. The second episode, ARG2003, is much more notorious in terms of GDP growth and the rest of economic data was also positive as we saw in the previous section.

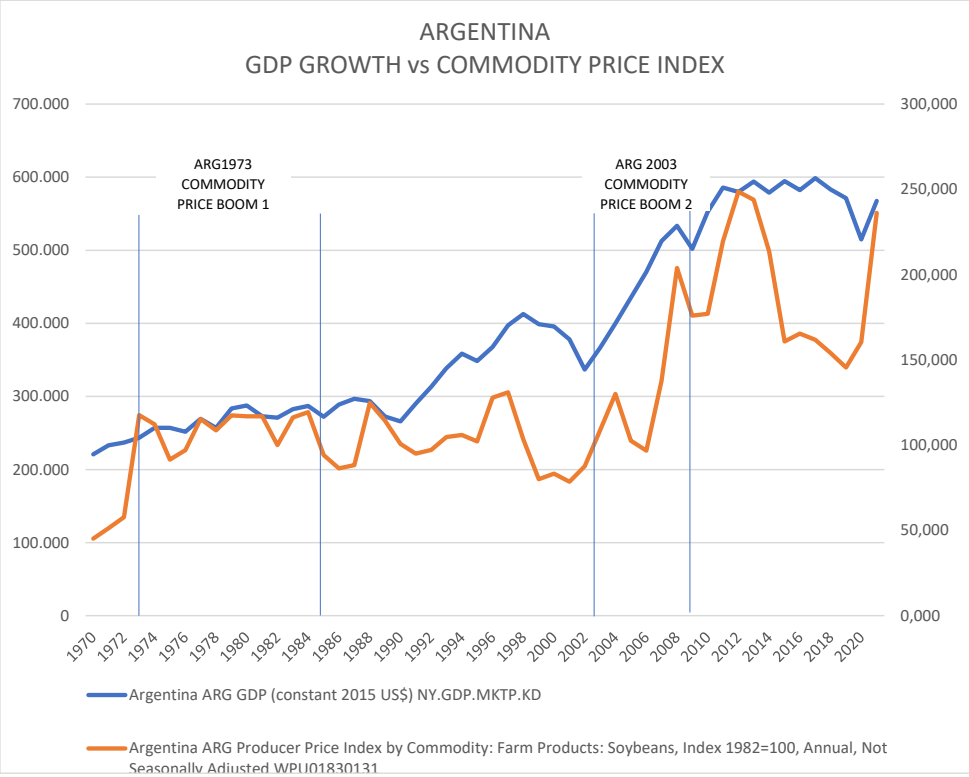


**CHART 49 SOURCE: OWN ELABORATION FROM DATA.WORLDBANK.COM. INDICATOR NY.GDP.MKTP.KD AND FROM FRED ST LOUIS**

In the case of Mexico, we are going to build a chart that compares GDP growth with the OPEC crude oil price. We have built a simple index base 100=1982 and this is presented in chart 50, where we have also highlighted the two periods of commodity price booms. Episode MEX1974 had a clear positive effect in terms of GDP growth, but as we have studied, it brought capital inflows in the form of debt and brought about the 1982 crisis. It did not prevent at all the hardship of the crisis, and in terms of GDP growth, the effect of NAFTA from 1994 was no less relevant. The episode MEX2004 came unnoticed for GDP growth. We can acknowledge that all in all, the Mexican growth of GDP is decoupled from the commodity boom.

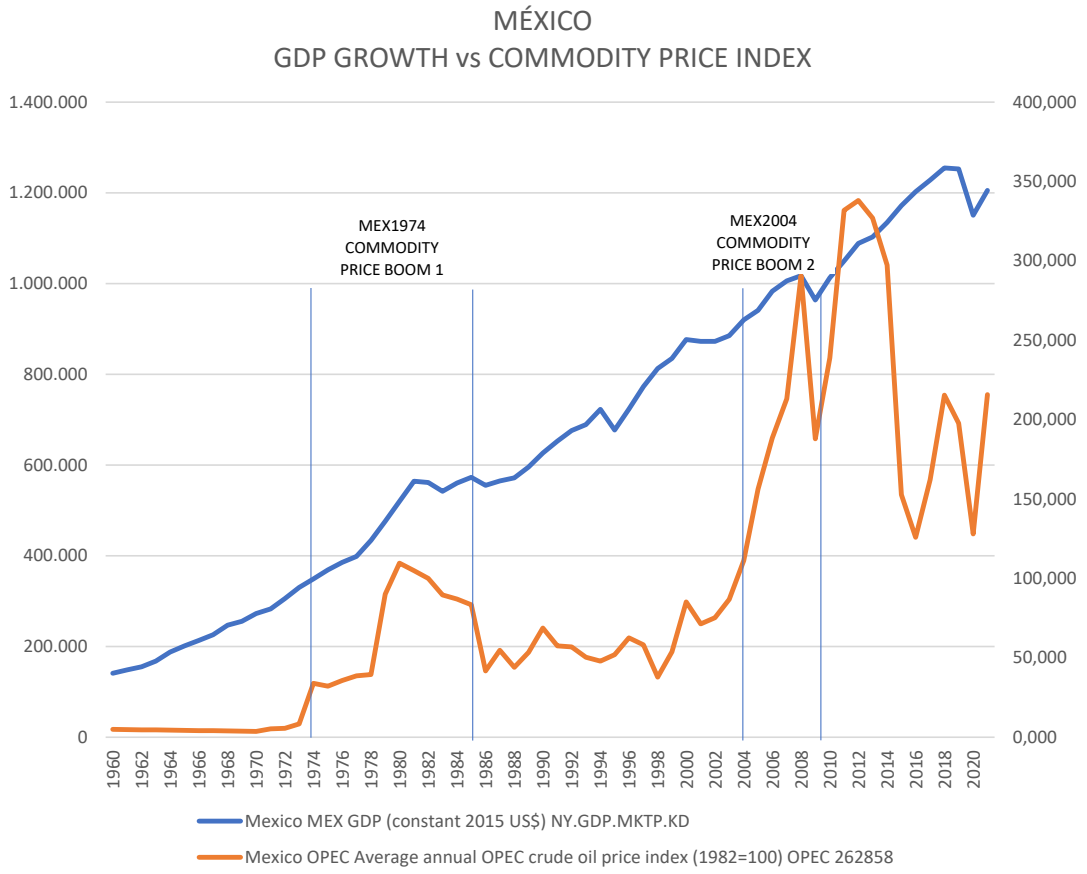


**CHART 50 SOURCE: OWN ELABORATION FROM DATA.WORLDBANK.COM.INDICATOR NY.GDP.MKTP.KD AND FROM FRED ST LOUIS**

Therefore, against some simplistic explanations that are commonly heard, and as history reveals, a commodity price boom alone cannot explain the good behaviour that Latin America has had in the face of the global financial crisis of 2008.

Moreover, empirical analyses that have tried to measure the link between terms of trade shocks and economic growth show that terms of trade disturbances account for around 1/2 of the observed variability of GDP and real exchange rates (Mendoza, 1995), and it is especially its uncertainty that draws adverse effects Commodity price shocks may explain 50% of the output, but no more than that.

In our opinion, this proves that only terms of trade are not able to explain the economic growth of Argentina and Mexico, and much less nowadays, if we look at how the export structure has changed.

Chart 51 below shows the percentage of agricultural, fuel and mining products over total exports for the main economies in Latin America

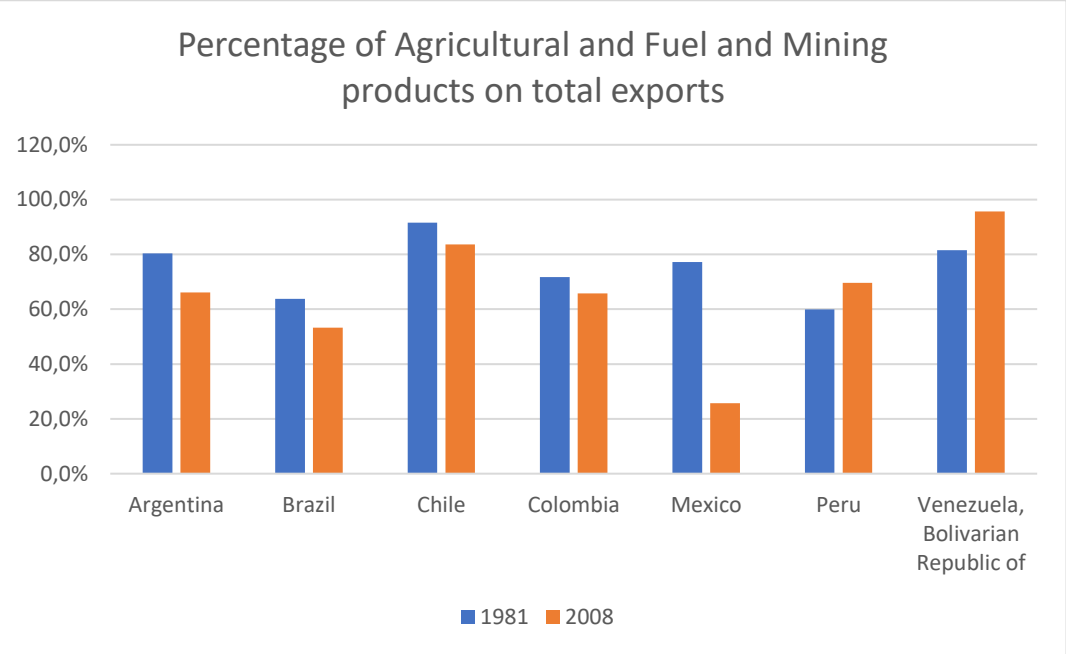


**CHART 51 OWN ESTIMATES, BASED ON WTO DATA**

At the beginning of both crises (1981 and 2008), the exporting structure was slightly different. Mexico has dramatically changed the composition of its exports. Argentina has also reduced its dependence on agricultural produce. Chile has remained dependent on copper, but that does not borough a worse behaviour than its neighbours. In fact, Chile has shown all along the twentieth century a better economic performance than most of its neighbours in the region.

A final chart before we move on to the next section, but this time one that we took from a report on trade by The World Bank dated 2019.

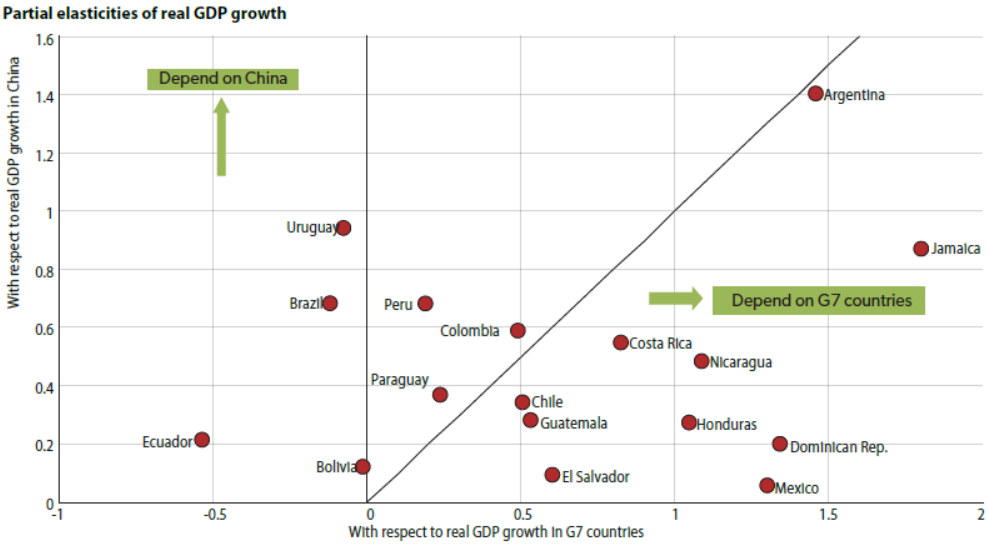


**CHART 52** TAKEN FROM WORLD BANK REPORT. TRADE INTEGRATION AS A PATHWAY TO GROWTH, 2019

This chart shows the partial elasticities of real GDP growth of Latin American countries with respect to GDP growth among G-7 countries and China. Partial elasticities indicate by how many percentage points the country's growth rate changes in response to one additional percentage point of GDP growth in each of these partners. This chart is built with GDP data from the first quarter of 1999 to the second quarter of 2019 (World Bank, 2019; p. 24). We see, unsurprisingly, that Mexico is much more dependent on G7 (particularly the US) than on China, and Argentina is highly dependent on both China and G7 at a similar rate than Mexico is on the US. This is all very coherent with atlas of trade that we presented at the beginning of chapter IV. In general, Central America is closer in trade to the G7, whereas South America is closer to China.

We can conclude that in previous crises, even with a commodity price boom, positive terms of trade alone were not enough to prevent countries from experiencing hardship. In contrast, during the great financial crisis of 2008, positive terms of trade were supported by additional policies that significantly contributed to the countries' remarkable resilience.

### 5.1.2 The budget balance

I happen to be writing this chapter of the dissertation in UK, during my stay at the Latin American Centre of the University of Oxford, just in the month when prime minister Liz Truss was invited to leave office, after her chancellor of the exchequer, Kwasi Kwarteng launched his 'mini' budget. The markets did not bear it. The budget deficit that his 'mini' budget would cause – unfunded tax cuts of £45 bn – was by all means unaffordable. Interestingly, the 'mini' budget included a cut in the 45p tax rate on high income households, or the suppression on the EU cap on bankers' bonuses. The pound plummeted for a few days, government gilt yields – the interest rate paid on public debt – hiked, and pension funds had troubled to keep liquidity. The intervention of the Bank of England was critical to maintain stability of the system. Kwasi (he was nicknamed 'Kami-kwasi')[65] Kwarteng was dismissed by her old-time friend and boss, and Jeremy Hunt was appointed as new chancellor. A U-turn in the 'mini' budget was announced, but Mrs Truss herself had to resign a few days later, after she lost the confidence of her tory backbenchers. She became Britain's shortest-serving prime minister, fulfilling just 44 days in office[66]. The lesson: fiscal policy matters, and more specifically, a budget deficit may derail a consolidated economy.

Taxation and tax systems are intimately related to state building (Tilly, 2009), (Centeno & Ferraro, 2013a), (Mazzuca, 2021). Professor Gary Cox has gone further, to put it just at the centre of state building. Elaborating on the original idea from North and Weingast that after the Glorious Revolution of 1689 in England, the Crown managed to transform its debt into a national one, and hence institutionalizing a market for public debt (North & Weingast, 1989: 825) as well as a formal commitment to pay it back to lenders, Cox argues that giving the parliament the monopoly over issuing taxes is the real key reform that the Glorious Revolution brought about (Cox, 2016: 120). For a reference, Spanish parliament could only assert an (incomplete) monopoly on taxes in 1876 with the

65 See for instance https://www.politico.eu/article/humiliation-uk-kami-kwasi-kwarteng-chancellor-bank-england-halt-market-rout/ or https://www.theguardian.com/politics/2022/oct/03/kamikwasi-kwarteng-delivers-his-excruciating-career-suicide-note last visit Dec 16th 2022

66 For a full account of the story, the FT analysis is highly recommended https://www.ft.com/content/736a695d-61f6-4e84-a567-fb92ed2a3dca. Last visit Dec 16th, 2022

Bourbon restoration, and in Latin America, the first case would be Chile, already in the twentieth century (around 1925).

As we have mentioned earlier in this dissertation, in patrimonial states, the landed nobility was basically exempt from taxation, whereas peasants and the bourgeoisie were bearing the weight of the tax burden, without previous consent. Today, the current trend of what can be called new fiscal sociology (Martin et al., 2009) considers taxation as the present-day social contract, where taxpayer consent is explained as a collective bargain (here we have again another bargaining relation), in which taxpayers agree to give up resources to the state in exchange for collective goods that should improve social welfare. And we should add at this point, social welfare is also akin to secure consumption in a capitalist society, and therefore, it is not only the direct beneficiaries of those collective goods who should be interested in levelling up the status of social welfare, but also other sectors, let us call them the wealthier layers, who would benefit from those policies. It is a question of balance, as it always happens in economics.

A good way to address the issue of fiscal policy is to look at the structural balance, which as it is defined by the OECD[67] "represents what government revenues and expenditure would be if output were at its potential level"[68]. That is to say, the actual balance corrected by the effects derived from the economic cycle, or exogenous shocks, like a commodity price boom or blast. Focus on structural balance does not mean that we can obliterate the *effective* balance. As we have seen, markets respond to the nominal figures, but fiscal policies targeting structural balances, along with the automatic stabilizers, can help in the fight against the procyclical stand of the policies (Ardanaz et al., 2016). We can say that the analysis of structural balances is interesting to assess the sustainability of fiscal policy in the long run, and the actual balance determines the yearly capacity of government expenditure. We will work with both concepts in this section.

67 Other institutions like the IMF or the EU have equivalent definitions
68 See https://stats.oecd.org/glossary/detail.asp?ID=2577. Last seen December 14, 2022

Tax systems in Latin America are generally characterized by low levels of taxation, a reduced tax base, dependence on commodity cycles, excessive bias towards indirect taxation (which gives a regressive stance to the systems) and subject to procyclicality. We can also add an endemic high rate of tax evasion, due to the strength of the informal economy as well as many wealthy families who manage to dodge taxes. All this said, budget balances in the region are very much subject to the ebb and flow of exogenous variables.

In this section, we will demonstrate that, contrary to the usual trend, fiscal balances have been positive during the commodity boom prior to the global financial crisis of 2008 and that has allowed for anti-cyclical policies during and in the aftermath of the crisis.

But before getting to that, let us put ourselves in context, and look closer at certain features of the fiscal systems in Latin America, and particularly in our countries of study.

If we look at the evolution of tax revenues as a percentage of GDP for countries in Latin America, and we take OECD countries as a reference, the trend is clear for the region as a whole: the gap is reducing (see chart 53), with Argentina approaching the level seen in OECD countries, while Mexico is still lagging behind, but there is a nuance on this, because oil rents in Mexico are not part of tax revenues,  and therefore, the total government revenue should be corrected, as table-figure 54 shows, which brings Mexico e bit closer to the Latin American average, and let total revenues very stable along the period.

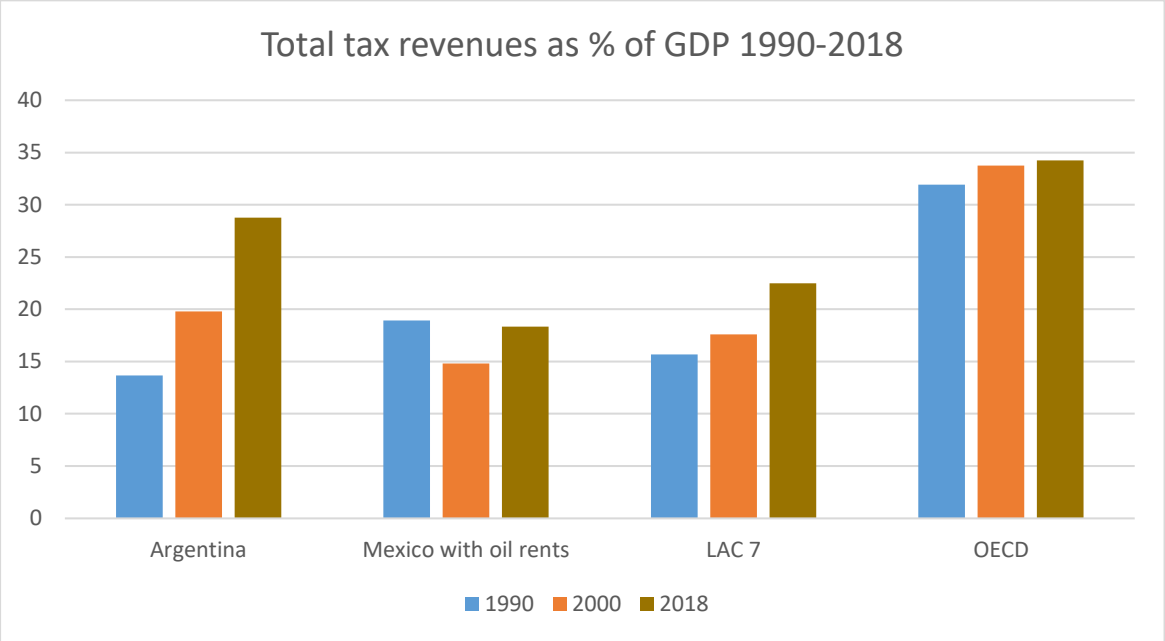


CHART 53 SOURCE: OWN ELABORATION FROM OECD, ECLAC-CEPAL REVENUE STATISTICS 2020

**Total government revenue as % of GDP, 1990-2018**

| | 1990 | 2000 | 2007 | 2010 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Mexico | 12,09 | 11,46 | 12,01 | 12,84 | 13,30 | 13,70 | 15,92 | 16,62 | 16,09 | 16,13 |
| Mexico oil revenues | 6,85 | 3,34 | 5,08 | 4,09 | 4,60 | 3,90 | 1,55 | 1,24 | 1,56 | 2,21 |
| Total government revenue | 18,94 | 14,80 | 17,09 | 16,93 | 17,90 | 17,60 | 17,47 | 17,86 | 17,65 | 18,34 |

FIGURE54 SOURCE: OWN ELABORATION FROM OECD CEPAL-ECLAC REVENUE STATISTICS 2018 AND WORLD BANK OIL RENTS, INDICATOR CODE NY.GDP.PETR.RT.ZS

Let us look at the tax structure, the sources of those revenues. Here, we observe an excessive weight of taxes from goods and services in the region compared to OECD countries, which includes basically VAT as well as other taxes on goods and services and excises. This heading represents roughly 50% of the total tax revenues in the region, compared to 30% in OECD countries (see chart 55). This confirms the excessive bias towards indirect taxes in detriment of taxes on incomes and revenues and social security, which are the main source for OECD countries. This partly reflects the fact that there is still so much informal economy in the region, which compels the persistence of a relatively regressive tax system.

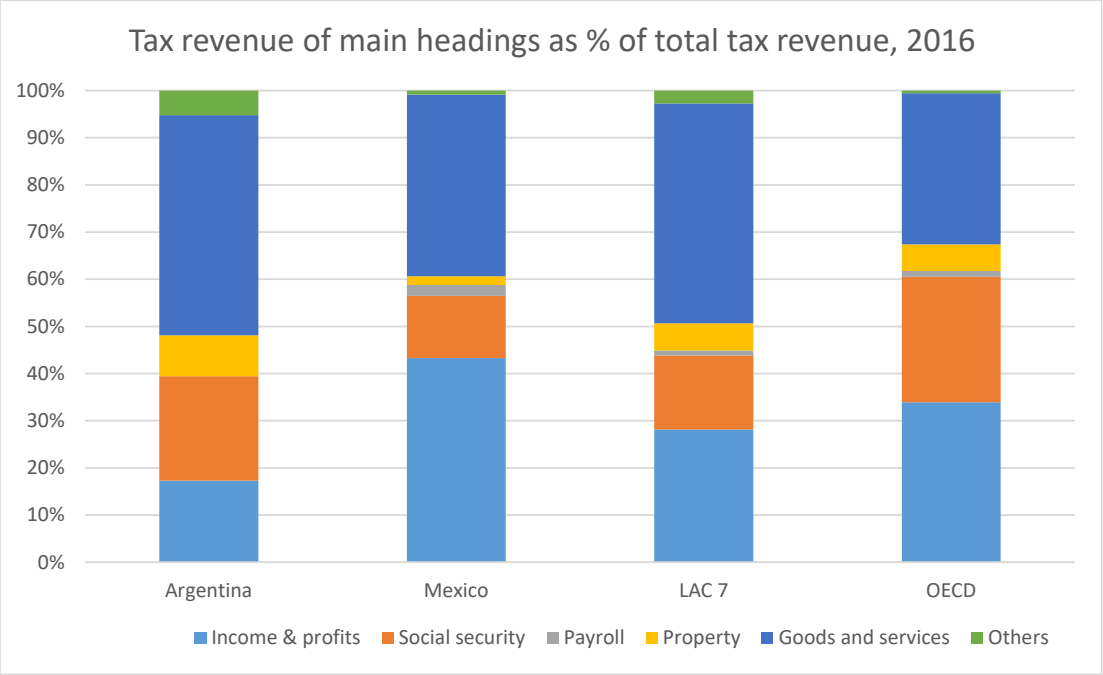


**CHART 55 SOURCE: OWN ELABORATION FROM OECD, ECLAC-CEPAL REVENUE STATISTICS 2018**

But if we look at where we came from, the tax structure from 1990 to 2106 shows a clear evolution for Argentina and for Mexico, although lighter in this latter case.

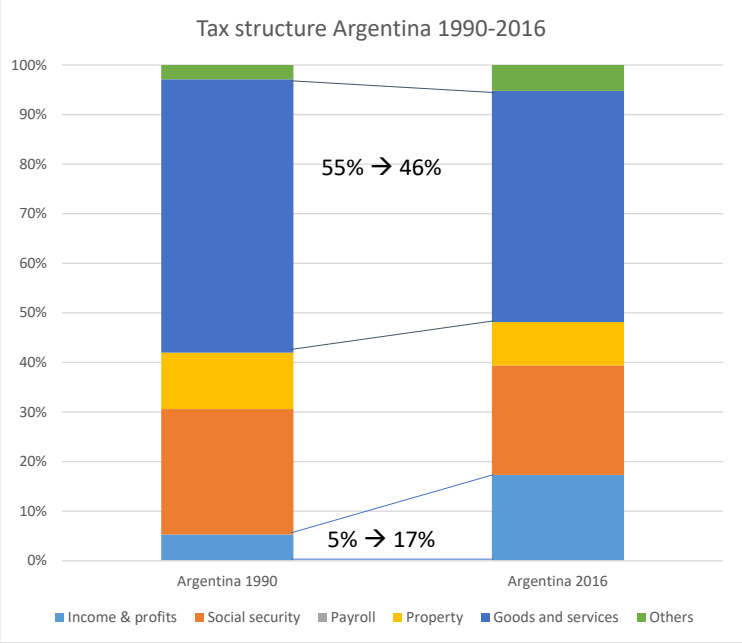


**CHART 56 SOURCE: OWN ELABORATION FROM OECD, ECLAC-CEPAL REVENUE STATISTICS 2018**

A reduction of practically ten points in Argentina for indirect taxes and of four points in Mexico, while the heading income and profits experiences substantial increases in both cases.

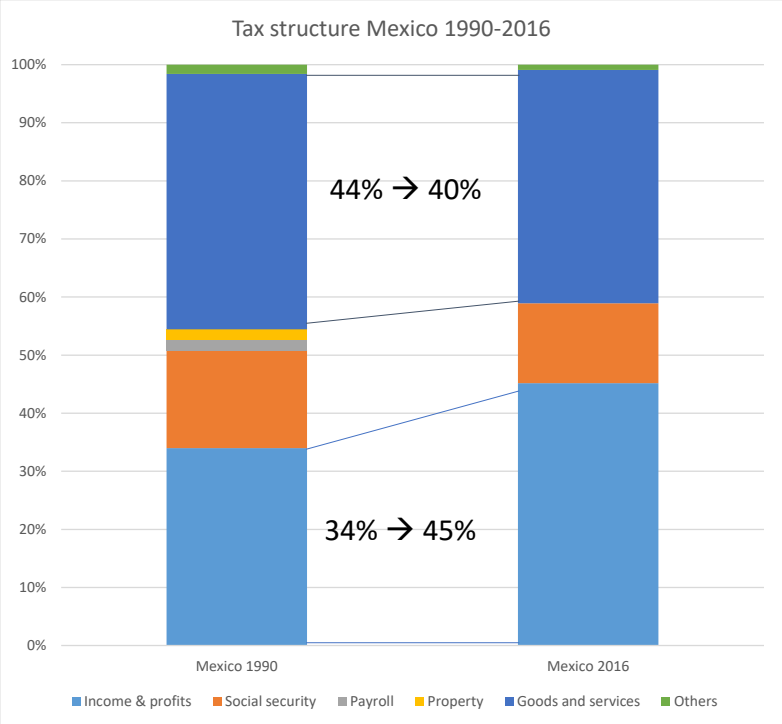


**CHART 57 SOURCE: OWN ELABORATION FROM OECD, ECLAC-CEPAL REVENUE STATISTICS 2018**

To be clear, this evolution was not a cause of a decrease in indirect taxes rates, as we see in tables 58 and 59 VAT rates have been unchanged since 2003 and since 2009 respectively in Argentina and Mexico, and in the case of Argentina at a level above the average of the OECD, while Mexico remains below that average.

Argentina

| Period | STANDARD VAT RATE | Notes |
|---|---|---|
| 1975 | 10% | Introduction of VAT |
| 1992 | 18% | Economic reform program (Recommendations from IMF) |
| 1995 | 21% | |
| 2002-2003 | 18% | Rates were adjusted at different levels and finally stabilized at 18% |

| | | |
|---|---|---|
| 2003 to present | 21% | The rate has been unchanged since year 2003 |

**TABLE 58 OWN ELABORATION FROM DIFFERENT SOURCES**

Mexico

| Period | STANDARD VAT RATE | Notes |
|---|---|---|
| 1968 | 10% | Introduction of VAT |
| 1969 | -- | Suspension of the VAT |
| 1970 | 10% | Reintroduction of VAT |
| 1973 | 15% | Stable for 7 years |
| 1980 | 10% | Economic reform program |
| 1982 | 15% | |
| 1989 | 10% | |
| 2010 to present | 16% | The rate has been unchanged since year 2010 |

**TABLE 59 OWN ELABORATION FROM DIFFERENT SOURCES**

One more chart, in this case to illustrate the dependence of government revenues on natural resources and on oil in particular. As we said at the beginning of this chapter both Argentina and Mexico have been dependent on commodity revenues during the twentieth century. It was one of the similarities that we highlighted when we chose to compare these two countries. Chart 60 shows the evolution of oil revenues for both countries from 1990 to 2016, following the same time pattern used earlier in this section. We show oil rents as a percentage of GDP and as a percentage of total government revenues, with the peculiarity that for Mexico, as we said above, oil rents are non-tax revenues.

This very significant chart shows how oil rents have been steadily diminishing both as a percentage of GDP and as a share of total government revenues. Another signal that things are changing in the region and particularly for Argentina and Mexico.

Another element that has changed in the region convenes a special political aspect of fiscality. With the eloquent title of “Reglas fiscales resilientes en America Latina”, the Inter-American Development Bank published a report in

2019 in which the case is made for sustained fiscal rules in the region (Barreix & Corrales, 2019) for roughly twenty years.

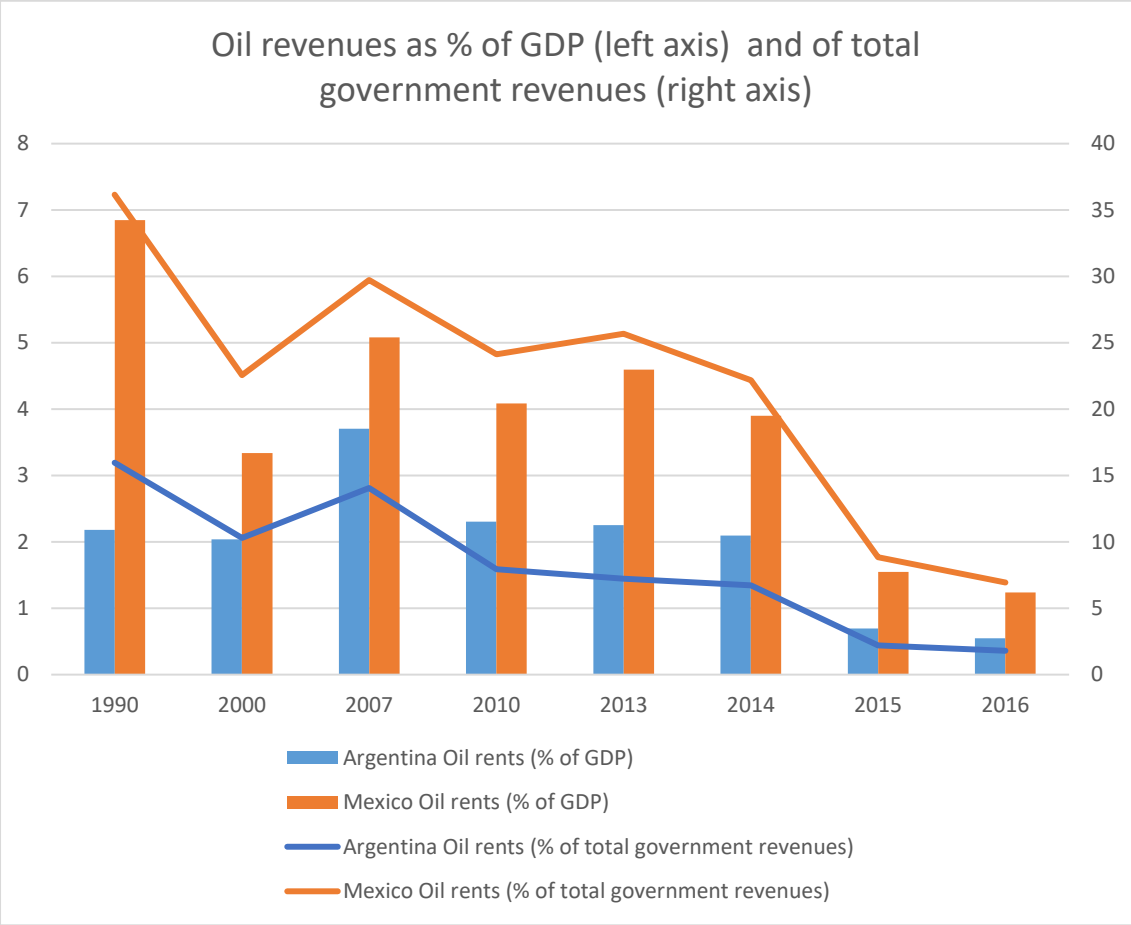


**CHART 60 SOURCE OWN ELABORATION FROM OECD CEPAL-ECLAC REVENUE STATISTICS 2018 AND WORLD BANK OIL RENTS, INDICATOR CODE NY.GDP.PETR.RT.ZS**

Fiscal rules are a set of guidelines that governments put in practice, and that are required to be applied for an extended period of time, to ensure sound financial management. The first wave of fiscal rules took place in Europe at the time of the signature of the Maastricht Treaty in preparation for the monetary Union within certain member countries of European Union by the mid-1990s. Latin America set the implementation of fiscal rules only a few years later, and they were to stay. The essence of rules is that, even if they are not at their full compliance, they set the field to control the parameters affecting them, and policies are addressed to the accomplishment of the rules. Of course, we must not fall into the fallacy that

a government should manage its finances as a family does, but sound financial management is critical for political stability, as we saw in the introduction of this section. How the rest of the world, and more specifically the financial actors of the world, perceive that a country is accomplishing sound financial management, will determine whether that country will have access to financial resources at all levels, and that is also critical for the stability of a government.

Fiscal rules may be classified depending on the benchmark they target (CEPAL / ECLAC, 2022), and hence, there are rules that target government expenditure, rules that target the fiscal balance, rules that target the government debt, and finally rules that target the revenues. Most countries apply a combination of those types of rules, especially of the three first types. Certainly, rules that target revenues are less common.

According to the above-mentioned report, by the Inter-American Development Bank, and despite the endogeneity that is implied in the adoption of fiscal rules, several studies, following what is known in statistics as the synthetic control method (SCM), prove that fiscal rules have a direct effect on the fiscal performance both at the local and national level (Ardanaz et al., 2019; p. 8).

Table 46B shows the basic fiscal rules in a selection of countries in Latin America (LAC 7 except Venezuela that is not implementing any fiscal rules whatsoever), prior to the pandemic. In the case of Mexico, there were two phases in the implementation of fiscal rules, a first phase from 2006 to 2014, and a second set of fiscal rules implemented from 2015, where the structural budgeting is part of the game. In the case of Argentina, the fiscal rules are focused on expenditure and debt at the local level.

| Country | Type of rule | | | |
|---|---|---|---|---|
| | Expenditure | Balance | Debt | Revenue |
| Argentina | Increases in current net primary government expenditure may not exceed the nominal GDP growth rate (for jurisdictions without a | | For subnational governments, debt service may not exceed 15% of current resources net of | |

| | | | | |
|---|---|---|---|---|
| | deficit) or inflation (for jurisdictions with a deficit) | | transfers to municipalities | |
| México | Structural current expenditure (excluding financial costs, equity, debts from previous fiscal years, fuels used for electricity generation, pension payments and direct physical and financial investment by the Federal Public Administration) may not grow by more than the potential GDP growth rate | Non-financial public sector (NFPS) budgetary balance (excl. PEMEX investments) that is also consistent with an orderly evolution of public debt | | |
| Brazil | (1) Primary federal government spending may not increase by more than the previous year's inflation ("spending cap")<br>(2) Cap on staff costs relative to net current revenues (50% for central government and 60% for states and municipalities) | "Golden rule" whereby fresh central government borrowing may not exceed capital expenditure (there are also indicative three-year primary balance targets, although these are not binding and are reviewed periodically) | Limits on the debt level of states and municipalities relative to their net current revenues | |
| Chile | | Cyclically adjusted structural central government balance converging towards equilibrium (with medium-term intermediate targets for each government administration) | | |

| | | | | |
|---|---|---|---|---|
| Colombia | | Central government structural deficit trending down to -1% of GDP or better from 2022 onward | | |
| Perú | The annual real growth rate of non-financial government expenditure must be no more than 1 percentage point higher than average long-term real GDP growth | The annual NFPS fiscal deficit must not exceed 1% of GDP | The total gross debt of the NFPS should not exceed 30% of GDP | |

**FIGURE - TABLE 46B SOURCE: EXTRACTED FROM CEPAL / ECLAC FISCAL PANORAMA 2022**

Let us note that some countries already target the structural balance rather than effective budget balance, which as we said before, is more convenient to fix long-term countercyclical fiscal policies. Chile, a country, as we know, highly dependent on copper exports, was the pioneer for this targeting in 2001, with President Ricardo Lagos and continued with President Michelle Bachelet, both leftish governments, by the way, and accompanied by the creation of two sovereign funds that would retain part of the profits from commodity price booms. As stated by professors Campello and Zucco, the establishment of those rules was a successful step in the advancement of an institutional framework to link fiscal rules and sound financial management in the use of government savings (Campello & Zucco, 2021; p. 157). Let us say that it was a new way to address the social contract that the tax system comprehends.

Moreover, the fact that these parameters are measured means that policies that affect structural balance can be implemented and put under surveillance. Our aim is to show whether these policies were procyclical our countercyclical. Let us recall here that according to basic Keynesian prescriptions, in times of economic boom, governments should take advantage to reduce the public deficit and in times of crisis, governments should increase spending to soften the waves of the

economic cycle, but developing countries tend to have largely pronounced economic cycles, not only because their economies are weaker and subject to international prices of commodities, if that is the case, but also due to the absence of countercyclical policies, which basically affect fiscal and monetary policy.

We must certainly, acknowledge, that there are exogenous factors. As we have seen before, both Argentina and Mexico were enjoying large capital inflows prior to the great financial crisis of 2008 (Abeles, 2012) (Moreno-Brid & Padilla-Pérez, 2012) that allowed them to accumulate foreign reserves, and be on the safe side for that matter.

To illustrate this, we can show a simple chart with the evolution of fiscal balances for our countries of interest around the last commodity price boom episode, as defined in the previous section from 2003 to 2008.

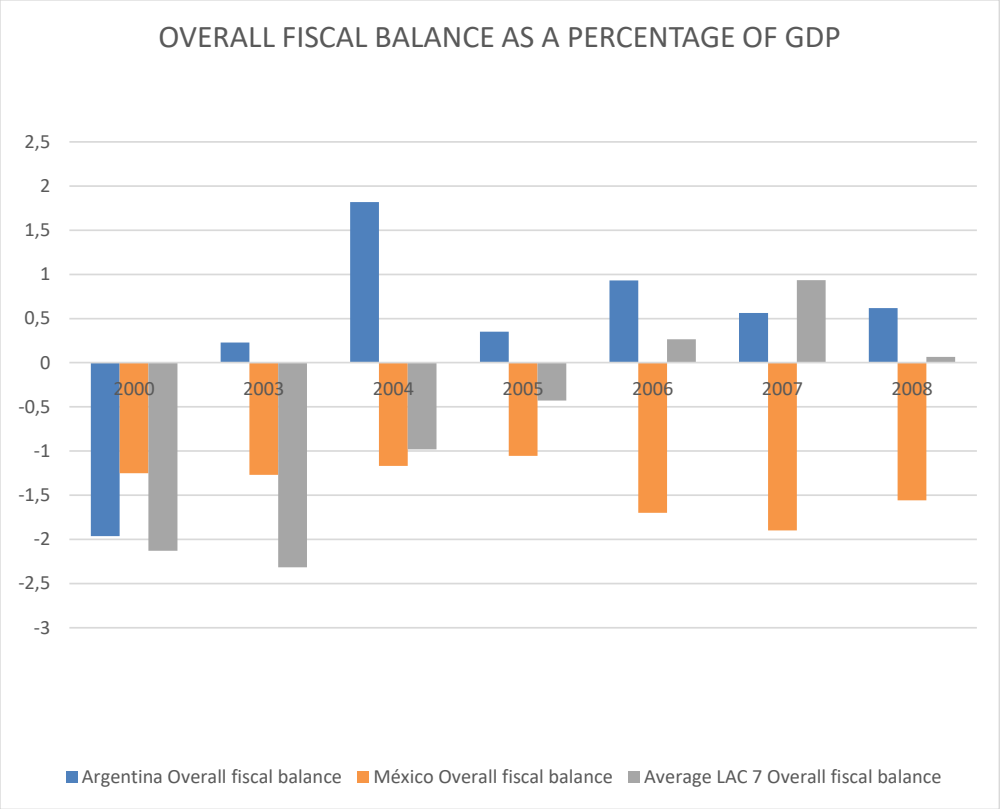


CHART 61 SOURCE: OWN ELABORATION FROM CEPALSTAT. ID 1246

Chart 61 above shows the overall fiscal balance for Argentina, Mexico and the average of LAC7 countries, around the last commodity price boom episode. It is extraordinary the case of Argentina, that managed to maintain overall fiscal surplus in all years of the commodity price boom. Mexico shows a deficit, but it is always below 2%, which is fairly reasonable by standard accounts.

If we look at the structural balance for those same years (chart 62 below), according to the definition we saw earlier in this section and with data coming from the IMF, the chart is very interesting. We first see that there is coherence in the positive or negative signs of the balances for each year.

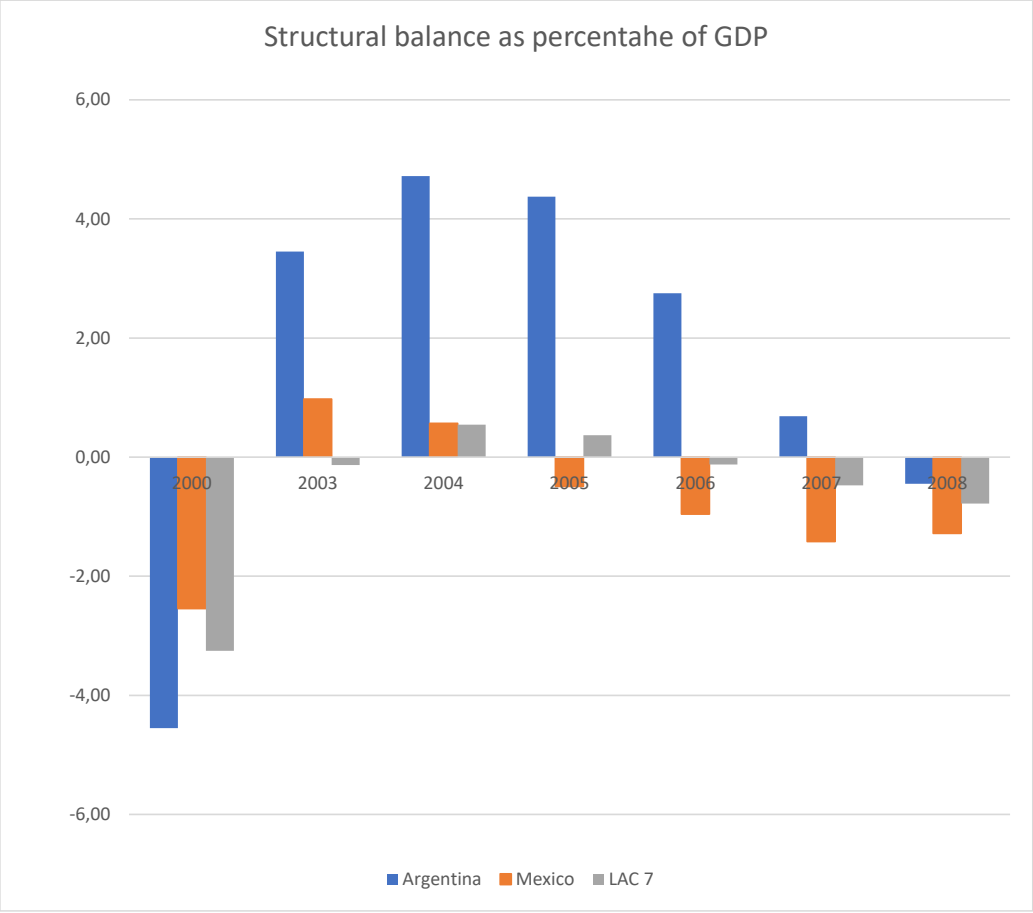


**CHART 62 OWN ELABORATION. SOURCE IMF WORLD ECONOMIC OUTLOOK. INDICATOR ID GGSB_NPGDP**

Secondly, we see that both in surpluses and in deficits, figures are higher than the overall fiscal balance. This means that countries are being prudent, keeping

the overall balance below its structural limits, while signalling that there is room for improvement in the national accounts, by accommodating revenues and expenditures to the potential of the economy.

To complement those two charts, let us show the total public debt at the time of the global financial crisis, when fiscal balances had a slight negative trend. Chart 63 shows that the public debt as a percentage of GDP was under control despite the deterioration of the deficit. Another sign of prudent fiscal policies around the price commodity boom and the subsequent crisis. Again, the case of Argentina is remarkable, coming from high stakes due to their own crisis, stemming from year 2000, but that they managed to reduce, basically thanks to the growth in GDP.

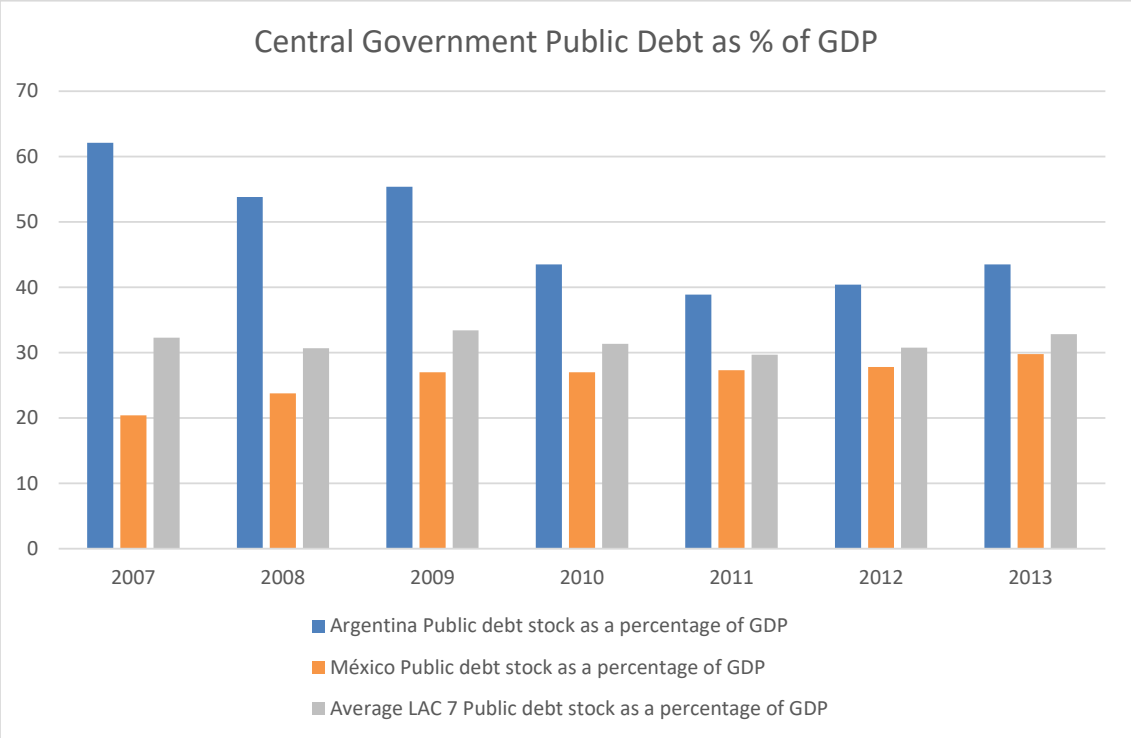


**CHART 63 OWN ELABORATION. SOURCE CEPALSTAT INDICATOR ID 1246**

Let us look now at what has been the pattern in export commodity countries when there is a commodity price boom and what happened in the last commodity price

boom, that was concomitant with the great financial crisis that we are studying in this dissertation.

The mechanism in developing countries that are also commodity exporting economies, goes as follows: in a crisis tax revenues decrease, and countries need to run a budget deficit, but because there is a crisis and they are developing countries, international lenders are not so eager to finance those deficits. They do not want to buy those countries government's bonds, or if they do, they will demand a higher yield, causing troubles to those countries' public finances. Therefore, those countries are in need to increase taxes during a crisis, adding up on the procyclicality trap. Moreover, those tax increases are usually "indiscriminate" or regressive, affecting consumption. For instance, increasing VAT or other indirect taxes. A reduction in consumption, directly affects economic growth, lowering fiscal revenues from other sources.

The surprise came with the crisis of year 2008. As we have seen above, nothing like that happened in Latin America during the crisis. The international financial markets disruption lasted for only a few months and risk premium hikes were also short-lived. What were the reasons for this performance? Has Latin America broken the trap of procyclicality for once? Has Latin America transitioned from the traditional nineteenth century tax system based on indirect taxes on trade, (basically import and export duties) to a more sophisticated and progressive tax system? Is that specifically the case of Mexico and Argentina? This is what we are going to study in the following pages.

Let us begin by looking at procyclicality. Professor Frankel and colleagues (Frankel et al., 2012) revise this issue for developing countries compared to advanced economies. It is empirically demonstrated, first, that in advanced economies governments have long implemented counter-cyclical policies in order to soften the harshness of the economic cycle, while in less advanced countries, the implementation of counter-cyclical policies is much more recent a phenomenon. As Frankel and his colleagues explain in the cited article, there is a clear correlation between improving institutional quality and implementing anti-cyclical policies, which leads us once again to put institutional change as a central

cause in the positive feedback process that leads to the transition from limited access orders to open access orders. We would rather say that pro-cyclical policies are actually "non-political", getting carried away by " the more I have, the more I spend" and to a large extent, the move to the implementation of anti-cyclical policies is due to improved institutional quality, which is also linked to improved governance and corroborates Collier and Goderis study about the long-term effects of the boom in commodity prices, as we mentioned in the previous section.

Secondly, and going deeper in the specific study of the set of countries very dependent on raw materials, as it is the case of the countries under study in this dissertation, and following again professors Céspedes and Velasco and the commodity price boom periods signalled in the previous section, country by country, they show that if this is true in general, in the case of such countries that they call “commodity republics”, the case is even more pronounced. In these countries, the price of raw materials largely determines the volume of tax revenues, but during the expansive period of commodity prices of the early 21st century, these authors demonstrate that the pro-cyclical trend has changed in these countries, with the sound exception of Venezuela (Céspedes & Velasco, 2011; p. 10). A striking case if that of Argentina. In the first period, which we called ARG1973 in the section above, the fiscal deficit deteriorated by 2.4% of GDP, while in period ARG2003, the deficit diminished by 8,2% of GDP , bringing an impressive span of 10,6 points (Céspedes & Velasco, 2011; p.18). In the case of Mexico, the span was of nearly 5%, see chart 64 below, extracted from this same paper by the above-mentioned authors.

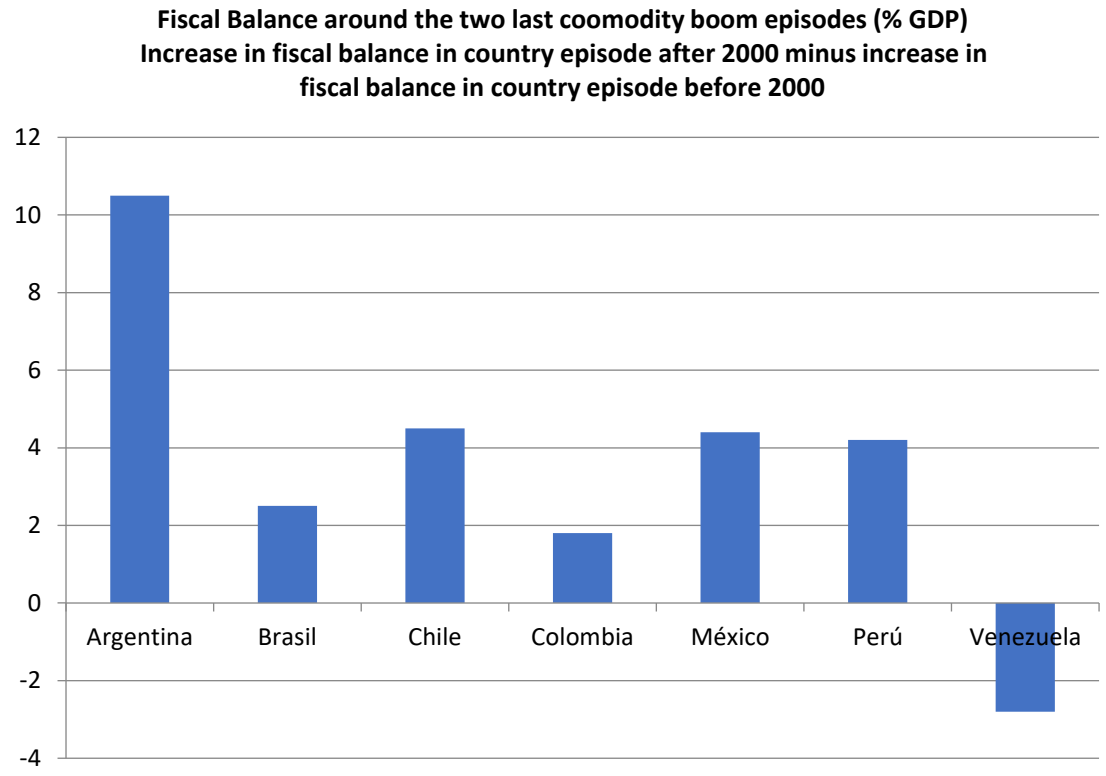


CHART 64 SOURCE: EXTRACTED FROM CÉSPEDES AND VELASCO, 2011

We observe that for the rest of the LAC 7 countries, except for Venezuela, as we have already said, the figures are also positive, meaning that the improvement in the fiscal balance is a significant feature of the latest commodity price boom episode compared to the one prior to year 2000. These positive data indicate a shift towards counter-cyclical policies between the boom before 2000 and the recent boom in commodity prices, while Venezuela's negative data show that its fiscal policy has not changed. Pro-cyclical policies continue to be implemented there, or, as we have said, non-political policies.

Now, fiscal balances have two components, the revenues, and the expenses, and therefore, at this point is necessary to discern which has been the main driver of the improvements in fiscal balances. We will follow the same analysis as before, comparing the differences in revenues and expenses during the two commodity price boom episodes.

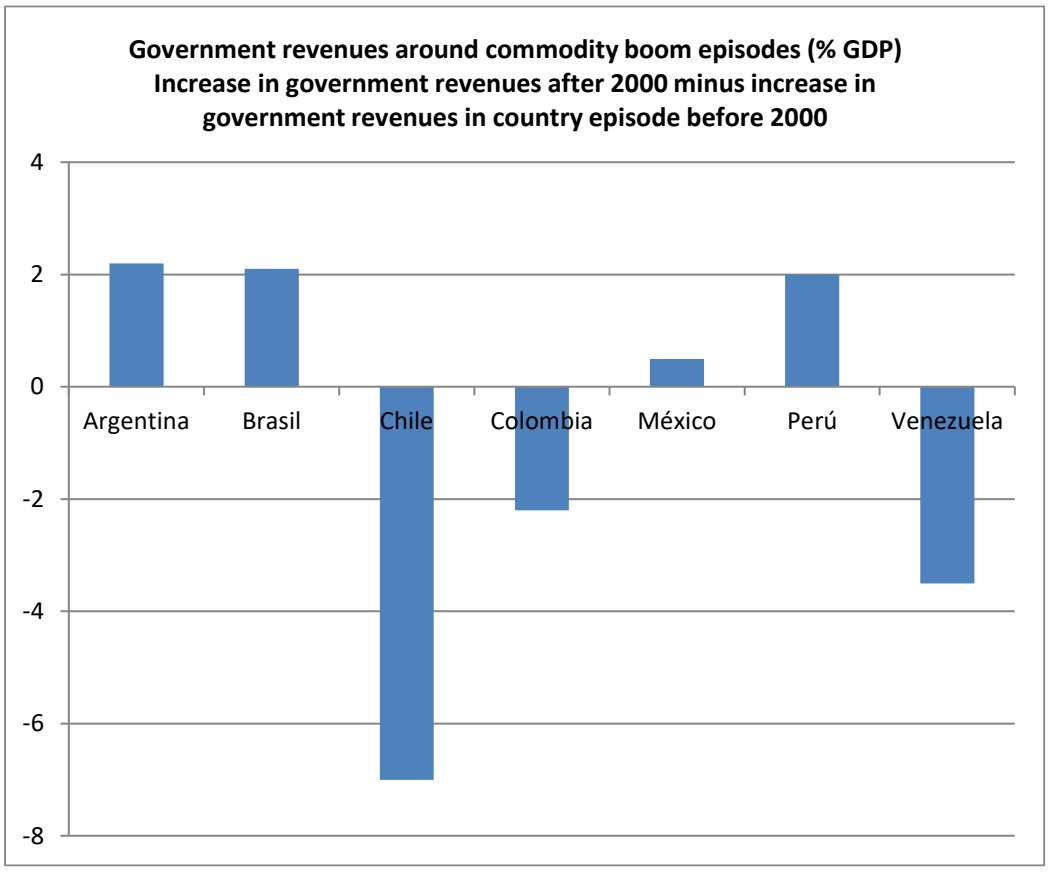


CHART 65 SOURCE: EXTRACTED FORM CÉSPEDES & VELASCO 2011

In chart 65 we observe that for Argentina the last commodity price boom episode had a positive effect in revenues, incrementing them by 2 percentage points of GDP, but this is not so much so for Mexico, where revenues increased by less than 1%. For the rest of the countries, there are mix figures, highlighting the cases of Chile and Venezuela.

But if we look at the expenditure element of the fiscal balance, the picture is more homogenous. All countries are in negative. Argentina and Mexico both took prudent policies, controlling the expenditure and letting it grow less than the revenues. We see that Chile, also implemented prudent policies, subsequently with the fall in revenues that we appreciated in the previous chart, which is not the case of Venezuela.

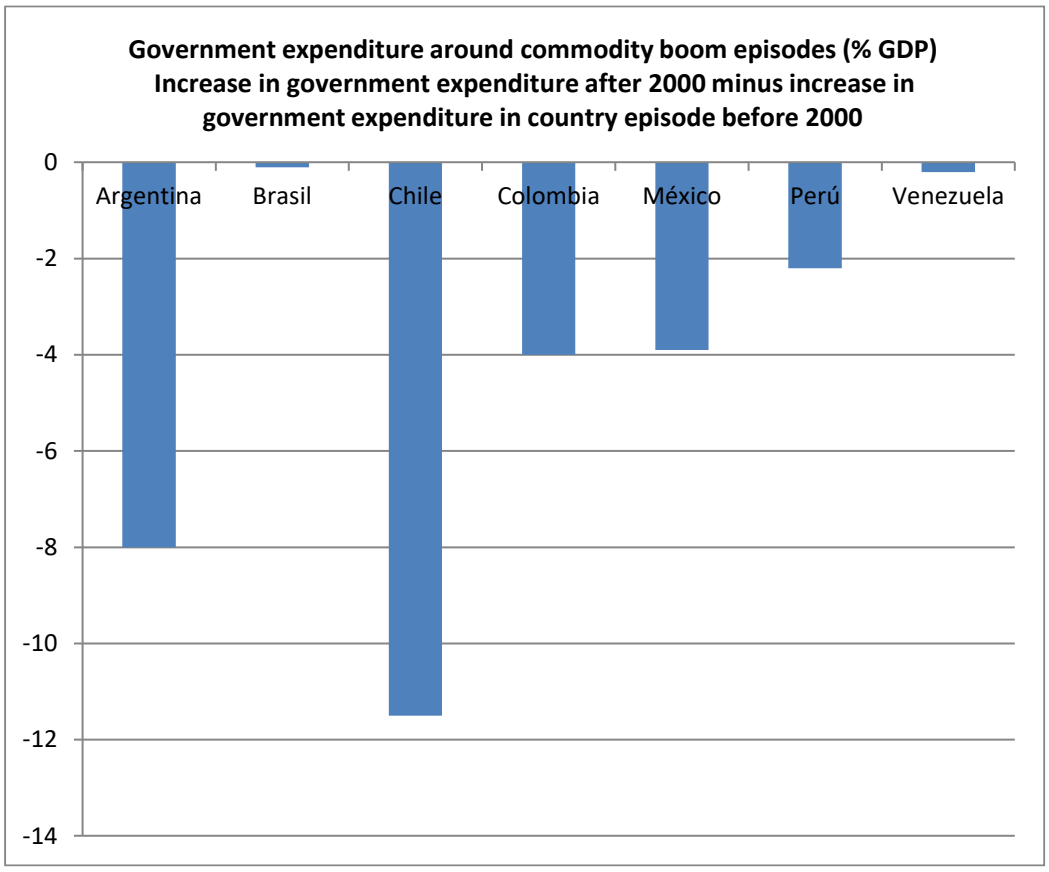


CHART 66 SOURCE: EXTRACTED FORM CÉSPEDES & VELASCO 2011

For the avoidance of any doubt, let us state that public expenditure in absolute terms has increased in the period under study, as we see in chart 66 below, and consequently, it has really been the application of prudent but consistent policies without letting the people down, what has driven public expenditure in the region around the Great Financial Crisis. We will see more details, referring to social expenditure in next section.

Thus, we can confirm that during and in the aftermath of the great financial crisis, the countries in the region, all but Venezuela, followed countercyclical policies,

for the first time[69] in the face of a commodity price boom, and this is an explanatory factor for the good behaviour of the region during the crisis.

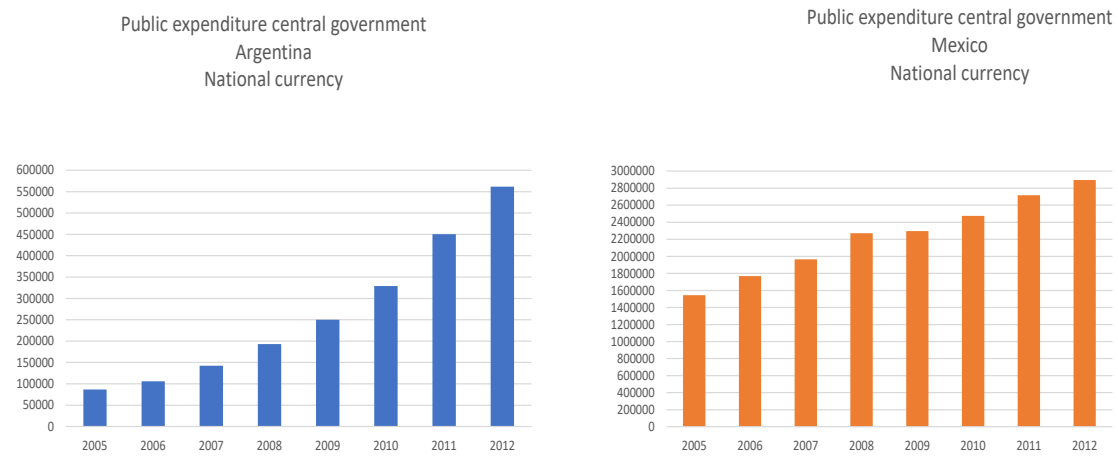


**CHART 67 SOURCE. OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 4409**

That is, with this variable, we see that institutional change is substantial between the immediately previous boom in commodity prices (and certainly others in the twentieth century), and the current one. The establishment of restrictions, in the institutional sense that we have defined in this work, which previously simply did not exist in this area of economic policy, helps explain the light pushback of GDP in 2009 in the region and the faster and more forceful recovery than in previous times. The so-called in economic theory, automatic stabilizers, have come into operation efficiently in the region for the first time in history. We will see details about this in the next section about social spending, but regarding fiscal policy, and talking in terms of fiscal sociology, we can conclude that the basics for a new social contract in the region are well in place.

69 It must be admitted that Mexico had implemented counter-cyclical policies *avant la lettre*, in the aftermath of the Great Depression, under the presidency of Lázaro Cárdenas. See for example (Knight, 2014)

## 5.2 AT THE POLITICAL LEVEL

Let now us analyse the variables that are more closely related to political decision making. One thing is balancing the budget and following prudent measures, and another thing is where to put the money to pursue political objectives, and we will analyse the evolution of social spending for that matter. Next, we will study the fact the legislatures have been more stable since 1990 and that alternation in power has occurred without violence, considering also that the composition of parliaments has shifted, affecting the political agenda of the legilsatures. Finally, we will review some policies that have reinforced the institutional framework of Latin American countries.

But, as we did in section 5.1, prior to analyse the variables, we will outline at the theoretical level the expected effects of these three variables on the dependent variables, considering that in this case, the effects are mostly indirect, except for social spending.

Social spending is a component of the government budget, and it affects directly some of the dependent variables, notably and in the first-place, inequality. We can certainly affirm that the larger the social spending the less inequality in the country. For the rest, social spending also directly affects GDP growth in a positive manner, by stimulating demand (or at helping to sustain it) that brings about a pension system or a social security system. For the rest, it affects, of course, the budget balance, other things being equal, it will increase the fiscal deficit, and it will require putting in place a more comprehensive fiscal system to ensure stable revenues.

In section 5.2.1 we will analyse the different components of public spending and how they have evolved in the region since we have data available.

The completion of legislatures will allow for budgets to be completed, and therefore allow for consistency in the policies affecting the budget balance during those periods, and affecting social spending if that is the case.

Policies that reinforce the institutional framework, like the ones that we will show in section 5.2.3 (independent central banks and fiscal rules) help the sustainability of the policies, affecting directly the budget balance, and contributing to the stability of the legislatures.

### 5.2.1 Social Spending – Access to social services

After a balanced budget, let us have a look at what usually is the largest chapter of the budget, social spending, since as we will see, the distribution of it is the result of political decisions and the fact that there has been a left turn in the region in the first decade of the twenty first century. Each of these variables has its nuances. Let's look at them below

Considering our broader definition of open access orders, that includes access to social services, social spending is a critical element to determine this feature, and we will show that social spending has increased in all chapters, especially since the end of the1990s.

We have just seen that prudent budget balances were part of a deliberate economic policy, intended to match revenues and spending with economic sense, but now, let us have a look at the chapters of expenses.

Social spending is a fundamental component of government policy to improve the quality of life of their citizens. We will define social spending below, but first let us take a definition of its aims, from a recent work by one of the specialists in this field, professor Eveline Huber: “[…] to prepare, support, and equip individuals in a way that increases their chance to support themselves in the economy (notably through employment) and reduces their future risks of income loss and poverty” (Huber et al., 2022; 377), and we should add, that it implies redistribution of economic resources. Let us say that it is the basis of the welfare state, and as

such, has been the subject of numerous studies to appraise what the main determinants of the total amount devoted to social expenditure are, as well as its distribution to the final beneficiaries.

Furthermore, economic historian Avner Greif, has revealed in a cross-country study, that social institutions linked to social spending are critical in incentivizing risk taking and promote economic growth. According to his study, it is precisely this sort of state-based poor relief institutions that partly explain why it was Europe, and not China the continent that fostered growth and a more innovating economy (Greif & Iyigun, 2013; pp. 536-538).

Social spending as such, was born in the nineteenth century, following what became labelled as the Bismarckian model, which was based on access to the welfare programmes based on employment, discriminating along occupational groups and considering the male as the breadwinner and provider of insurance for his dependents. Social spending maintained a growing trend throughout the nineteenth century, but the boom occurred after World War II in Europe, with the development of the welfare state as we know it today and, also in the United States some time ahead of Europe thanks to the policies implemented under Roosevelt's New Deal. This growing trend has stopped from 1980 and has since remained at a stable percentage of GDP. The studies we referred to earlier, therefore, took these regions as an empirical reference, so that OECD countries became the reference as the model to be followed for the development of social spending and the welfare model (Lindert, 2004:11)

As we have explained in Chapter III of this work, Latin America's economic history has been characterized by chronic inequality in the distribution of wealth. Large-scale and consistent social policies arrived late in the region and not very articulated.

But before we look at what has happened in recent years in Latin America, let us see what we talk about when we talk about social spending.

Traditionally, social spending consists of several chapters whose components are[70]:

- Spending on education, which forms the network of schools and public schools in a country, covering all levels of education, as well as the subsidiary services to education.
- Health spending, which includes the entire spending chapter dedicated to the public health system, medical products, appliances and equipment, outpatient services and hospital services.
- Social protection spending (or social security), which includes spending on pensions for sickness and disability, as well as maternity leave, pensions for old age, provisions for family and children, protection for unemployment and certain selective transfers for the underdeveloped or excluded layers of society.
- Environmental protection, that considers waste management, wastewater management, pollution abatement, protection of biodiversity and landscape,
- Other social expenditures such as spending on social housing, which depending on the economic moment, become more or less important as a percentage of GDP.

A question that often arises about social policy and social spending is whether it should be universal or just addressed to the low-income layers of society. Despite some recent works that cast some doubts about universalism (Gugushvili & Laenen, 2021) (Brady & Bostic, 2015), the case for universalism prevails. Let us see why.

As we said before, the aim of social spending is to reduce the risks of income loss and poverty through the redistribution of economic resources. In 1998, Swedish scholars, Walter Kopi and Joakim Palme suggested the paradox of redistribution, and showed that for a set of eleven countries (they were al

70 For a complete description of all expenses, see for example "Government Finance Statistics Manual 2001", that includes the Classification of the Functions of Government – COFOG – in https://www.imf.org/external/pubs/ft/gfs/manual/pdf/all.pdf Last visit Jan 25th 2023

developed economies) setting a universalistic policy that provides both low-income and high-income individuals with earning-related benefits can reduce inequality and poverty more efficiently than a flat-rate policy targeted only to the low-income layers (Korpi & Palme, 1998: 681). Universal policies find more support in the society, and for Latin America, and other developing economies, universal policies do not favour stigmas, and on the contrary, they can create cross-class alliances that will improve service quality, for instance in health services, and enhance social cohesion, for instance through universal policies in education that would consequently expand human capital (Franzoni & Sánchez-Ancochea, 2014:19).

Moreover, following again Professor Sánchez-Ancochea, universal policies are also linked to positive impacts on sustainable economic growth and competitiveness, by promoting entrepreneurial spirits, skilled workers and definitely expanding aggregate demand (Sánchez-Ancochea, 2021a: 149).

In Latin America, the case for universalism was part of the ebb and flow of politics and regimes. From around year 2000, the notion of a basic basket of social rights and the concept of full citizenship began to gain ground in the region. The publication of a critical work by the Inter-American Development Bank, precisely titled “Universalismo básico” (Molina, 2006), where a set of authors set up the basis for a new social policy orientation for the region, marked the official recognition of this orientation, that, in fact, was in place in some countries since the end of the 1990s. The interest of this work stems from the fact that it is a multilateral organization, and not just a mere academic one, who is recommending an array of policies that clearly departs from the recommendations set by sister organizations in the 1980s, when a reductionist approach was followed with the implementation of programmes targeted to the most vulnerable segments of the population, and therefore, the implementation of those policies was easier to pursue.

An immediate predecessor of this shift in policies was a paper issued in 1999, by the then Senior Vice President and chief economist of the World Bank, Joseph Stiglitz, and his colleague Peter Orszag, when in a seminar organized by The

World Bank, on new ideas about old age security, they advocated for the establishment of a public pension system (Orszag & Stiglitz, 1999). Again, a multilateral organization proposing a shift in policies they defended years earlier.

Let us look at the history of social policy in the region. The development of the welfare state in Latin America has also a Bismarckian origin. It was progressively reaching layers, which curiously, were not what would be expected given developments in Europe or the United States (the large working masses), but already privileged elements. Again the elongated shadow of the patrimonial state shows up, and we find that social security systems, starting from the same Bismarckian roots as in Europe, they reach, in Latin America, first of all the military, the police and the judiciary, then go on to include white-collar workers in critical positions, such as teachers and banking employees, then blue-collar workers of the railway, mining and port type and finally all workers in the formal sector of the economy (Huber et al., 2008; 423).

This sort of evolution brought about several limitations in the social policy models, that we can summarize as (1) lack of a unified strategy between the different chapters of the social policy - education, healthcare, social security -, (2) policy through urgent matters, that favours fragmentation and lack of coordination (3) excessive dependence on the formal sector, and (4) weak presence of the state, that favours a commodification of policies.

These are the political legacies (or rather "policy legacies") that the political parties of the region encounter when reaching power through democratic channels. Let us note that this development is perfectly compatible with our theoretical framework, according to which society evolves according to a dependent trajectory, of which these political inheritances are part, but remember that does not mean a deterministic path, but just that policies need to overcome the inertia.

The proposal of the authors in the above-mentioned book by the Inter-American Development bank was to (1) promote social protection through non-contributory mechanisms, (2) reinforce the democratic system (3) propel the investment in

human capital, and (4) promote social cohesion (Sposati, 2006; 66). These are a concretisation of what professor Huber considered as aims of social spending, as we saw above: It is ultimately to develop a full citizenship and a set of homogeneous goods and services accessible for all citizens, within a sound economic framework, that would prevent first and second-class citizenship, overcoming the privileged groups that had historically been benefitting from the nascent welfare state.

The truth is that some of these aims were apparent in the electoral programs of political parties since the late 1990s. The work of the Inter-American Development Bank was important because it established a compendium of policies in all social chapters, and because, as we said, this compendium was coming from a multilateral organization.

We will look next at the different chapters of social policy and the reforms that had been implemented since the late 1990s in the region. We will see that, a shift in policies was implemented compared to those applied in the aftermath of the debt crisis 1982, but first, we need to add a little note on statistics.

Anyone working on time comparisons of a certain economic indicator has experienced frustration with statistics. Finding the right figures can be a nightmare of sources, definitions of the indicator, changes in the time series… whatever. Social spending is one of these cases. First of all, is it an expenditure or an investment? Recent literature refers to the variable as an investment rather than an expenditure, because of the benefits it brings about. Even ECLAC/CEPAL contributed to this discussion, and they advocated for the denomination as social investment “to strengthen the view that outlays for social functions help build human capacity and subsequently improve the well-being of the population, which then contributes to sustainable development” (ECLAC, 2016; 59), although its reports refer indistinctly to either social investment or social spending. In this work, we will refer either to social investment or social spending. But further than the denomination, the time series in the CEPAL / ECLAC database changed in the report “Social Panorama of Latin America 2016” (published in 2017), after ECLAC decided to work with the Classification of the Functions of Government

(COFOG) international standard, using the full coverage, that is to say, the entire non-financial public sector and most importantly, the simple arithmetic average, as opposed to the weighted average by the country's GDP utilized so far (ECLAC, 2017; 92). Since this change happened in the middle of our time study, and the starting date of the series is different in each case, until 2016, the starting date is 1990 and from 2016, the starting date is year 2000, we will show the evolution of the two indicators as a percentage of total GDP, considering the breaking point in time year 2007-2008, for it was the beginning of the great financial crisis.

For any of the time series, the evolution of social spending is significant for the whole of Latin America, and it is especially evident for some countries, particularly Argentina, although the level of expenditure has stagnated in recent years.

For us to have an order of magnitude, and considering the time series established in 2017, in OECD countries, social spending in year 2019 is in the surroundings of 20% of GDP, and in Latin America it is around 11% of GDP (see chart 68). However, while social spending in Europe has remained stable since the 1980s, in Latin America has been growing steadily, rising by a cumulative 36%, a very significant increase.

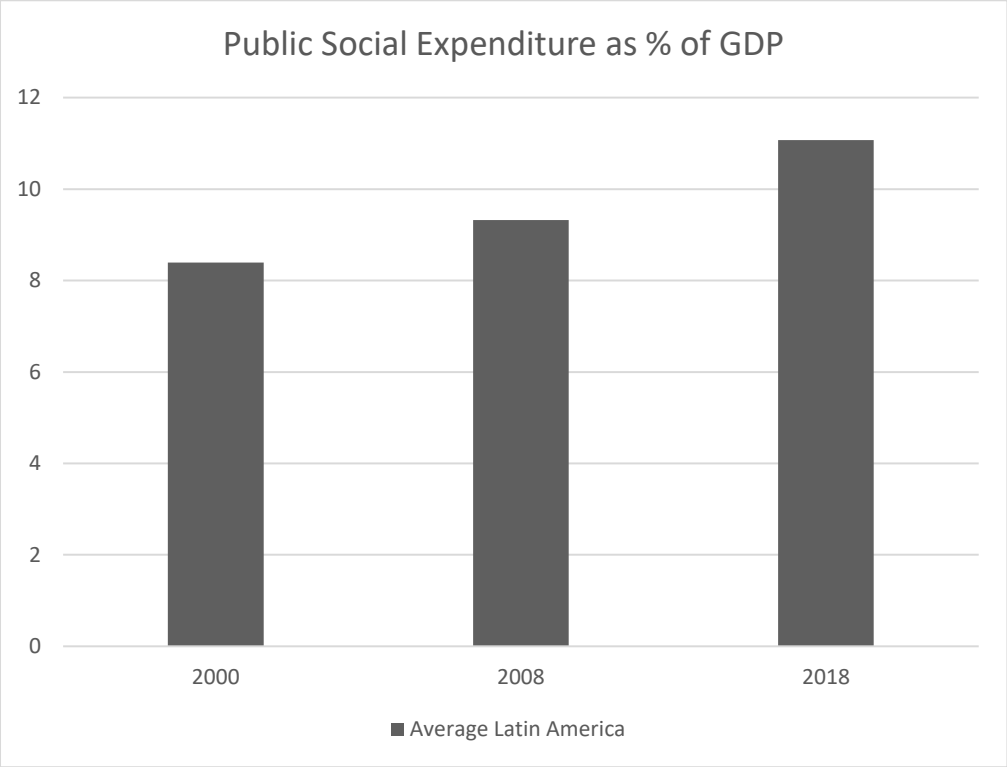


**CHART 68 SOURCE: OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 3127**

The case of Argentina shows a somehow a more pronounced pattern, but concurrent with the general one, as chart 69 below shows.

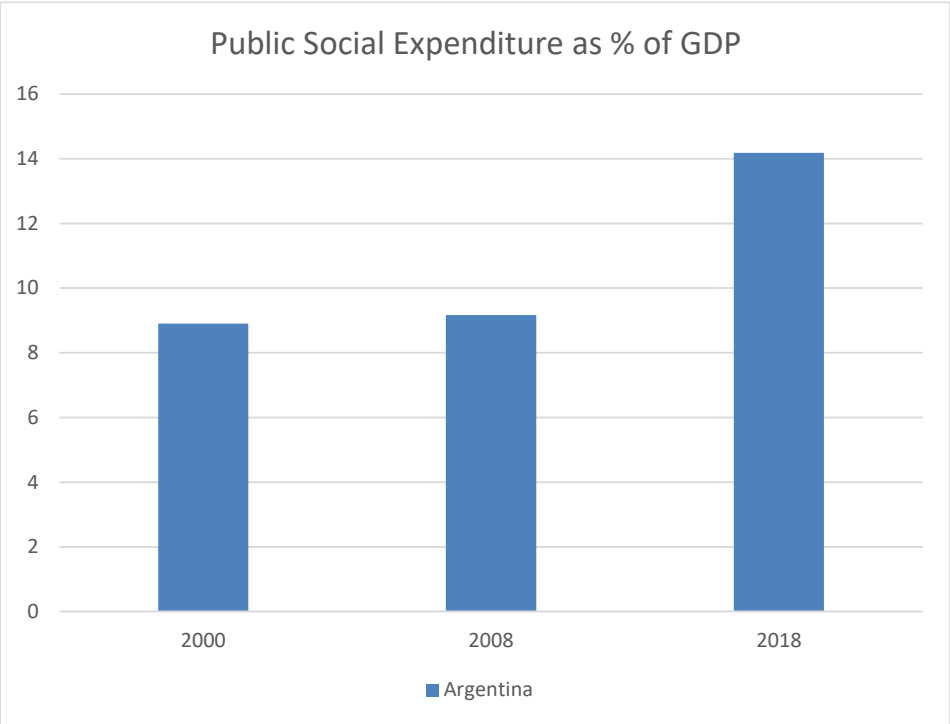


**CHART 69 SOURCE: OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 3127**

And the case of Mexico (chart 70) does not provide any surprise either, except that it is below the Latin American average.

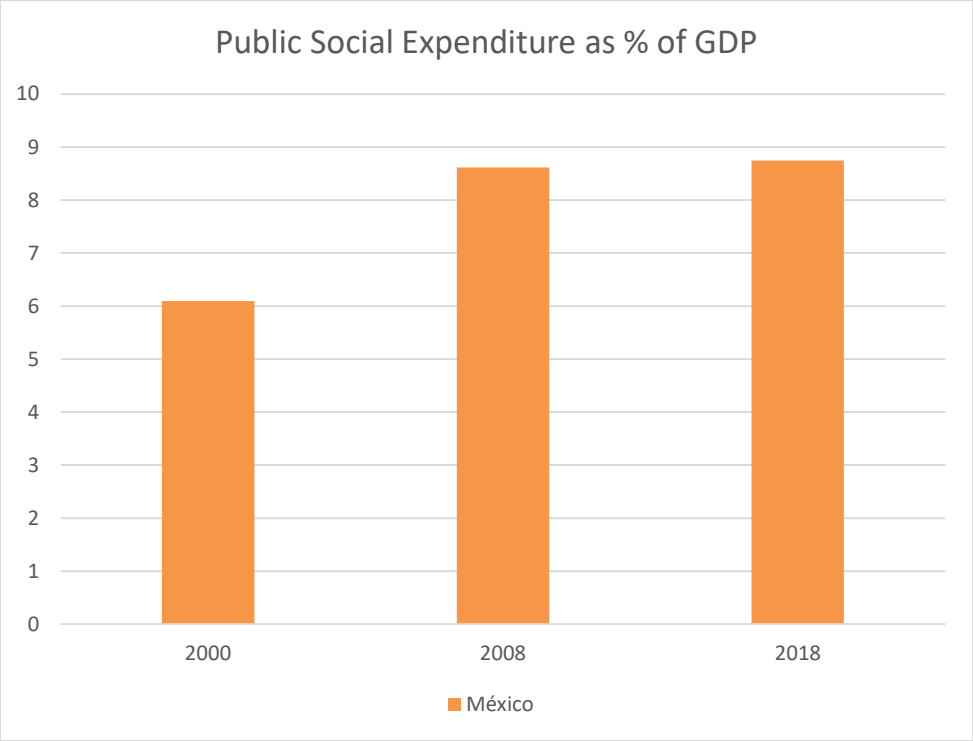


**CHART 70 SOURCE: OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 3127**

Let us look at the general trends of shifts in the main chapters of social spending, namely education, healthcare, and social protection.

## Education spending

Education was the first component of social spending, with the creation of public schools as early as at the end of the eighteenth century in North America and some German states (Lindert, 2004: 19), and along the twentieth century it was considered as a trigger for economic development. In fact, a recent study, that we have briefly mentioned in the introduction of this dissertation, considers education as the main driver for gains in human development in the region, ahead of healthcare, and particularly life expectancy (Prados de la Escosura, 2022: 156).

Multilateral organizations put educational reforms on their agendas during the 1990s, through three main lines (Navarro, 2007: 426)

- Decentralization
- Development of evaluation systems
- Public-private partnerships

The decentralization consisted of the transfer of responsibility for education to subnational levels. The problem is that on many occasions, this transfer was not accompanied by fiscal transfers. Some of these reforms were opposed by teachers' unions, that were generally well organized (and still are) in the region, that saw these reforms as a way of curtailing their bargaining power. The most drastic reforms were implemented in Chile, where the government of General Pinochet turned teachers into municipal employees (Huber & Stephens, 2012: 159).

The development of evaluation systems was brought about in the 1990s as a basic measure to be able to implement education policy reforms. Learning is the final aim of the school system, and in Latin America, before the mid-1980s, it was practically impossible to determine how much students were learning in the

schools (Navarro, 2007: 434), and therefore, policies were designed and implemented based on perceptions rather than facts. The 1990s saw the incorporation of international educational agencies like the Laboratorio Lationamericano de Evaluación de la Calidad de la Educación (LLECE), created for that purpose by UNESCO in the 1990s, or notably the Programme for International Student Assessment (PISA), that belongs to the OECD, for the assessment of Latin American students, and have allowed a certain standardization of studies in the region.

Finally, the third line of policy reforms, public-private partnerships, stems from the fact that the scarce results of primary and secondary education in the region were perceived as a "government failure", rather than a "market failure", since the large majority of students were under the public system of education (Navarro, 2007: 439). With different formats, the basic implementation of this line consisted of the introduction of a system of publicly subsidized but private controlled schools, that lived along the fully public and fully private schools. Chile was the most extreme case with a system of vouchers that aimed to create a market for education.

While these reforms produced significant gains in some indicators as enrolment rates, and years of permanence in the school, attaining practically universal primary education access and completion, they also raised questions about the disparate implementation depending on income levels, and the performance of students, that remains significantly lower than in OECD countries. The report "Social Panorama of Latin America 2022" is precisely focused on education, and highlights these deficits (ECLAC, 2022). The report shows how the educational systems in the region had serious problems when coping with a crisis like the COVID-19 pandemic, but at the same time it reckons the big achievements since the 1990s.

Let us see as an example the figures for enrolment in upper secondary school, for this educational level is generally efficient for a semi-skilled job. We do not have the figures for exactly the same years in each case, but we take approximate years to follow the trend.

In the case of Latin America as a whole, the trend is clearly positive since the mid-1980s, as chart 71 below shows.

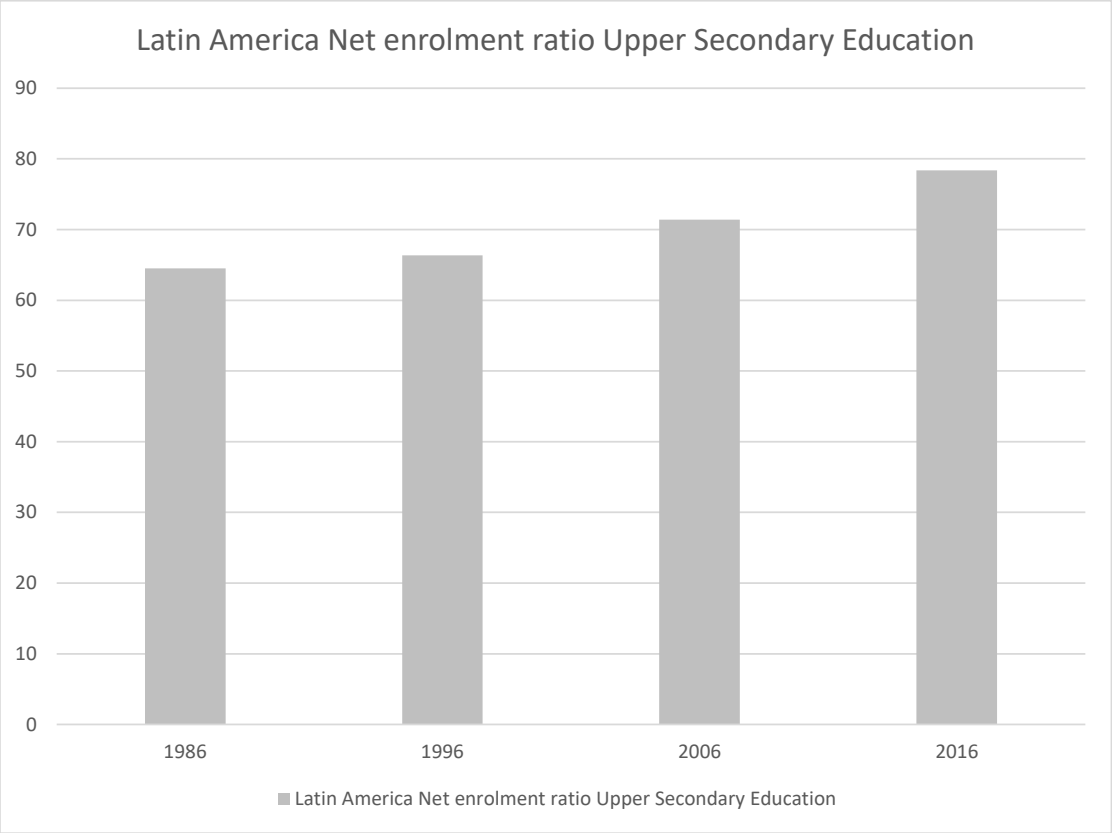


**CHART 71 SOURCE: OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 184**

For Argentina (chart 72) the trend is also clear and perfectly coherent with the region, getting to a 90% of the population in the age of upper secondary school enrolled.

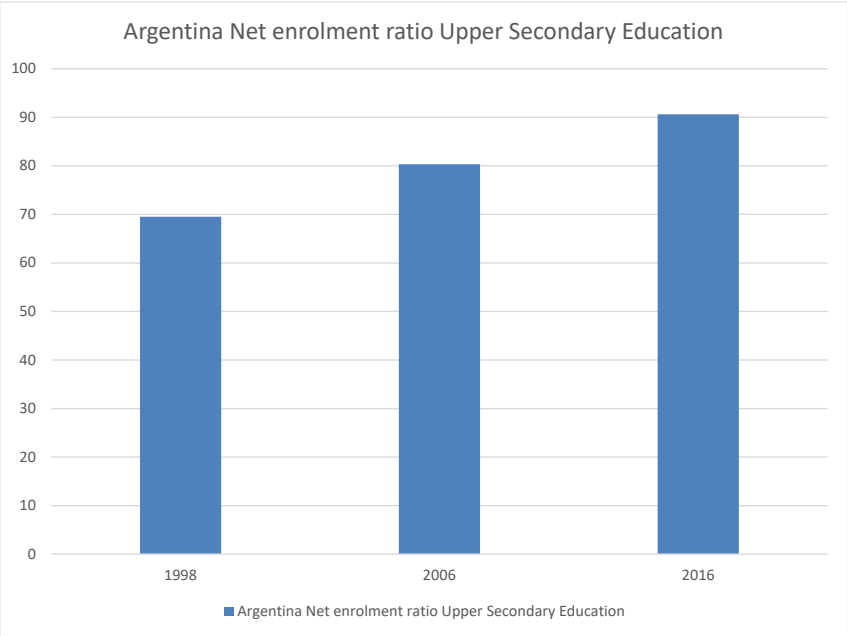


**CHART 72 SOURCE: OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 184**

For Mexico the figures are below the average, signalling the big differences between the northern regions and the southern and less developed regions (chart 73).

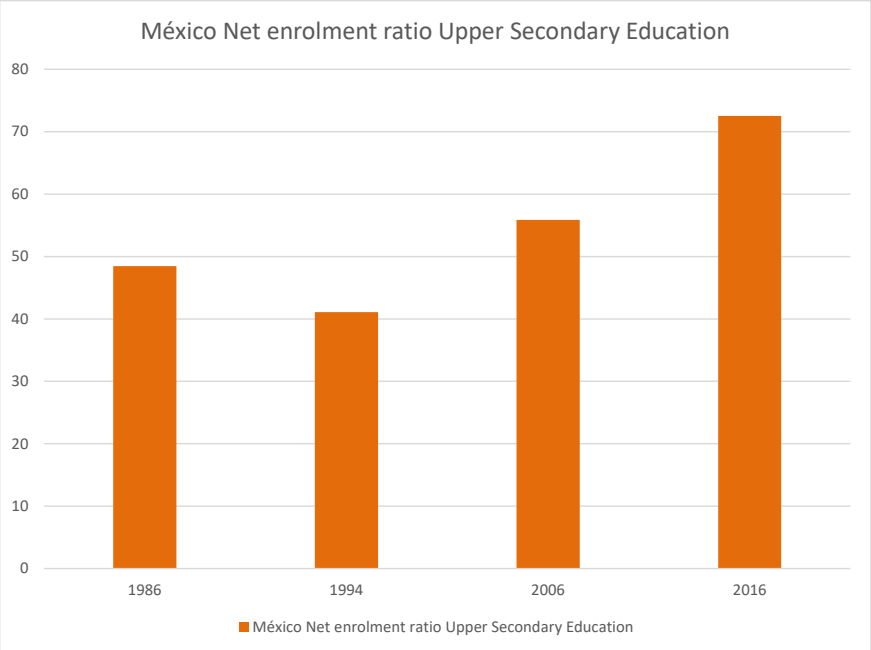


**CHART 73 SOURCE: OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 184**

## Health Spending

The provision of health services followed a paternalistic pattern from the 1930s until the 1980s, with a clear Bismarckian bias as opposed to a Beveridge (more universalistic) model. However, the consensus nowadays is in favour of a universal coverage, which is coherent with what has been stated at the beginning of this section about the advantages of a universalistic model.

Recent studies show a positive correlation between universal coverage and the reduction of mortality rates both in adults and infants and universal coverage is one of the objectives of the sustainable development promoted by the United Nations and has also been adopted by multilateral organizations (Horton & Das, 2015).

Therefore, after the wave of reforms implemented in the 1980s, the trend from the beginning of the twenty-first century is towards universal coverage, with mixed results depending on the country.

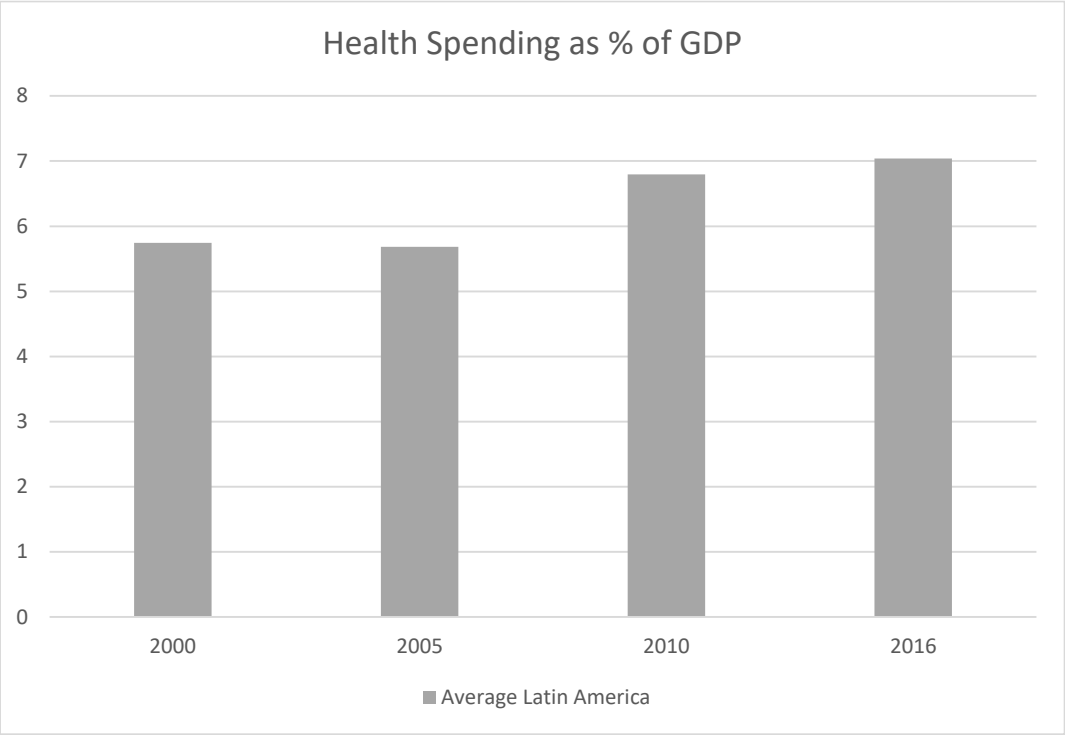


**CHART 74 SOURCE: OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 4410**

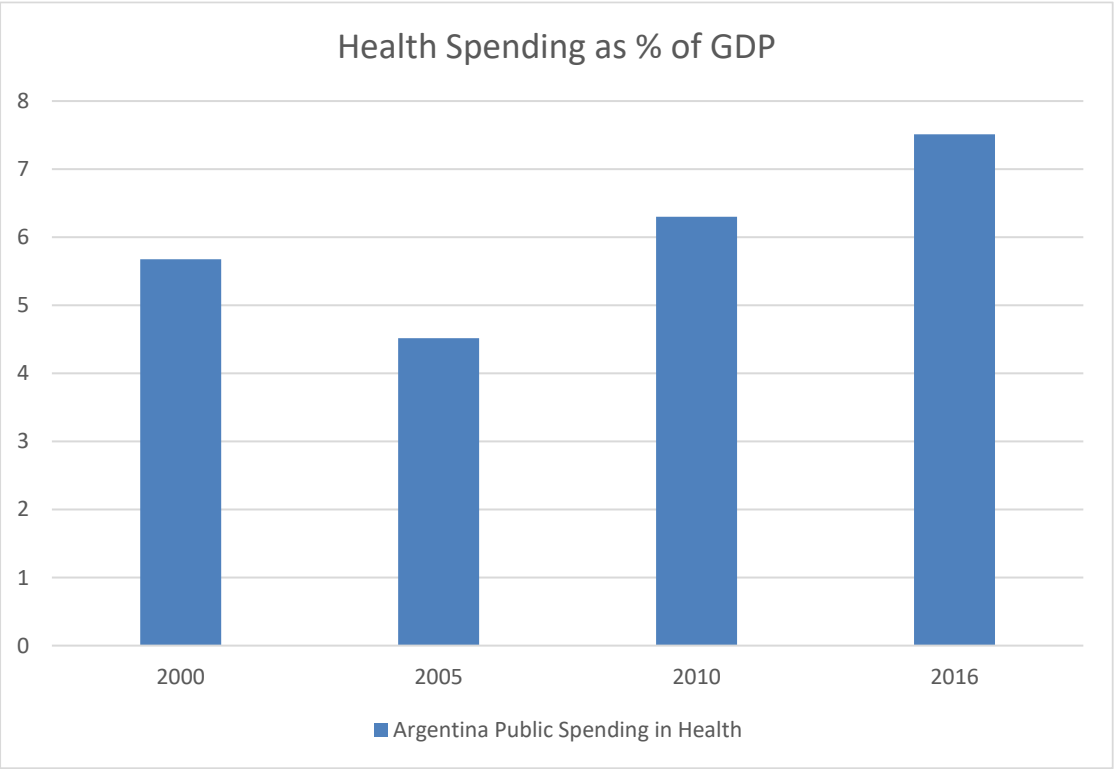


**CHART 75 SOURCE: OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 4410**

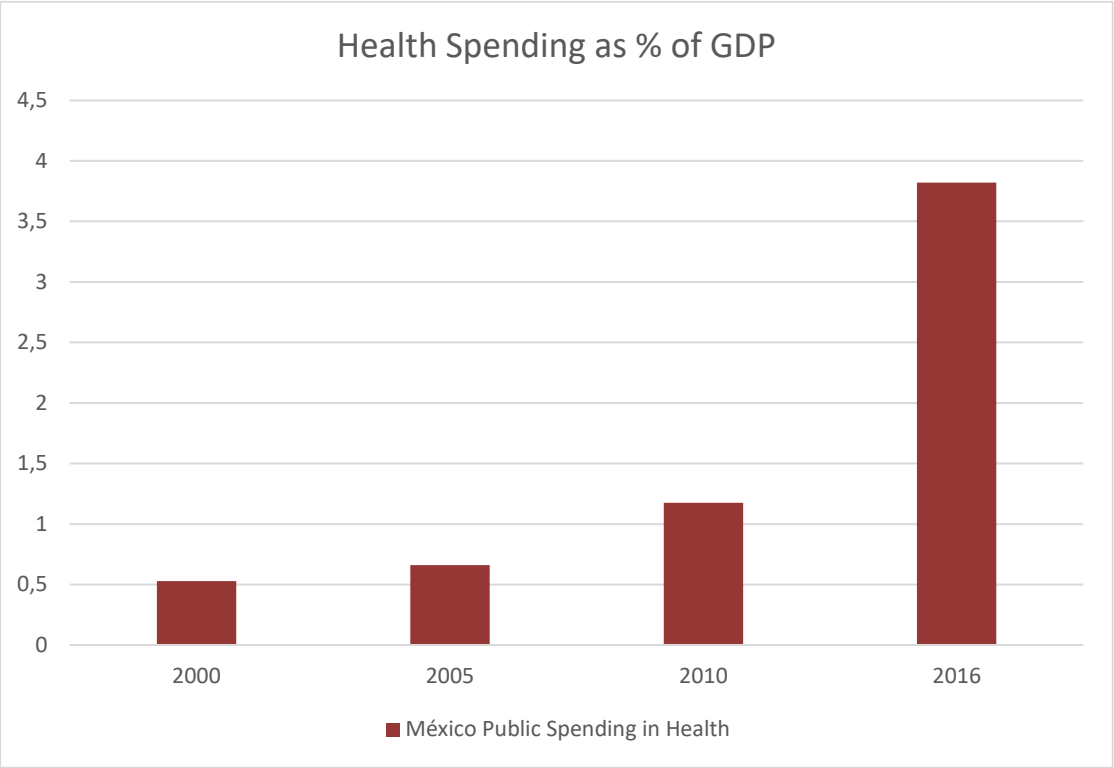


**CHART 76 SOURCE: OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 4410**

Let us briefly review the health systems in the two countries of our interest to further understand the figures above. The general trend has been from a centralized public health system to a decentralized one, with some variations in the degree of decentralization and the importance of the private sector.

In Mexico, decentralization of the healthcare system started in 1984 with the breakdown of the Partido Revolucionario Institucional (PRI) political monopoly (Daughters & Harper, 2007). Hospitals are managed at the state level, although they coexist with the Social Security system (IMSS – ISSTE) that remains centralized, as well as with the old and privileged groups that still have their own system, notably Petróleos Mexicanos (PEMEX), the Police or the Armed Forces.

In Argentina, the system is decentralized, in line with the federal structure of the country. There coexist three sectors: public, social security and private, but each province has autonomy over service delivery and financing.

Both countries have programmes to enlarge assistance and attain universal coverage, as it is recommended by multilateral organizations, but figures seem to have stagnated after 2010, according to the last data available.

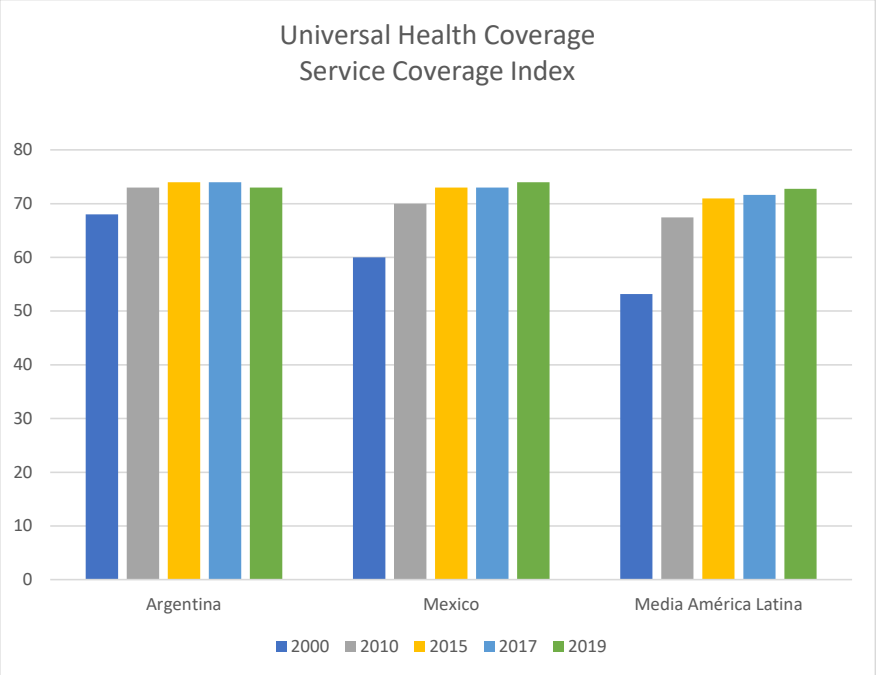


**CHART 77 SOURCE: OWN ELABORATION FROM WHO/WB 2021 - TRACKING UNIVERSAL HEALTH COVERAGE**

The World Health Organization together with The World Bank have started a monitoring report on universal health coverage (WHO & World Bank, 2021), and they have created an index to measure effective coverage. Chart 77 above shows the results for our countries of interest and for Latin America as a whole. The figures are stacked just below 80% for the last ten years.

But there is another phenomenon of interest that is taking place in the region. Health expenses are generally a cause of vulnerability for middle classes, for they can turn into catastrophic expenditures and eventually bring a family down to ruin. It is still very common to pay for health services out of pocket, and this can be very painful, especially for households for which the capacity of holding liquid assets is reduced.

People and the market are reacting to this circumstance by turning into private insurance, something that we can verify through the massive increase in premiums paid for health insurance policies, and in the consequent reduction of health services paid out of the pocket.

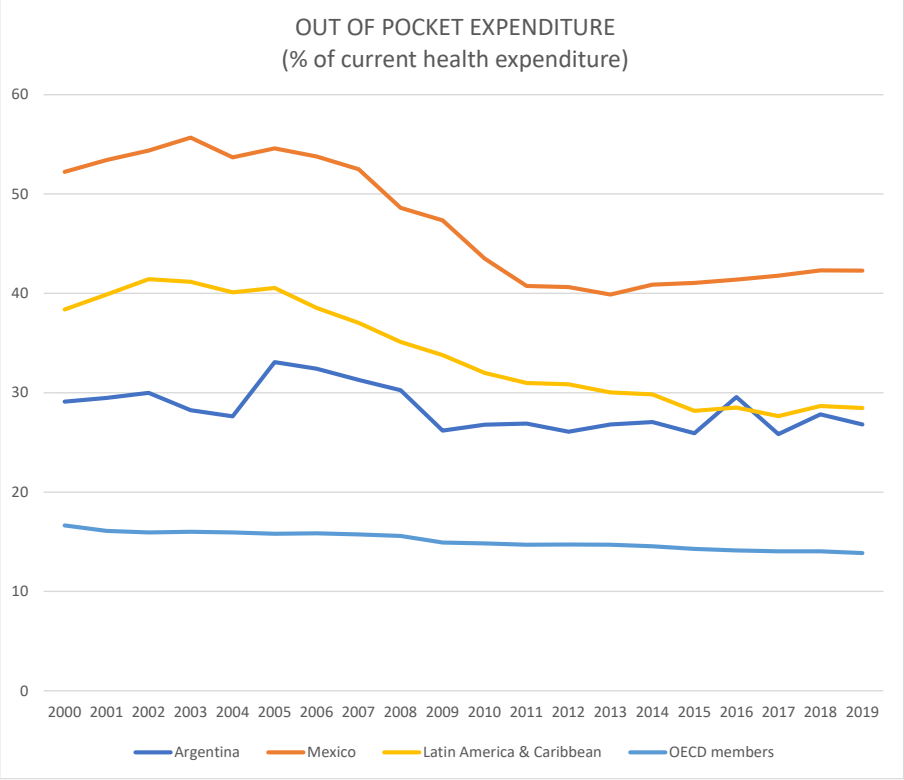


**CHART 78 SOURCE: OWN ELABORATION WITH WORLD BANK DATA. INDICATOR SH.XPD.OOPC.CH.ZS**

Chart 78 above shows the evolution of out-of-pocket expenditure by households as a percentage of total health expenditure for Argentina, Mexico, Latin America and the OECD countries for the purpose of comparison. The evolution is clear, and it shows a steady decrease since year 2000.

This combines with the fact that people without any kind of health insurance, either public or private, are also steadily decreasing, as the chart 79 below shows. Unfortunately, there are no figures for Argentina, but for the region and Mexico, the trend is very explicit.

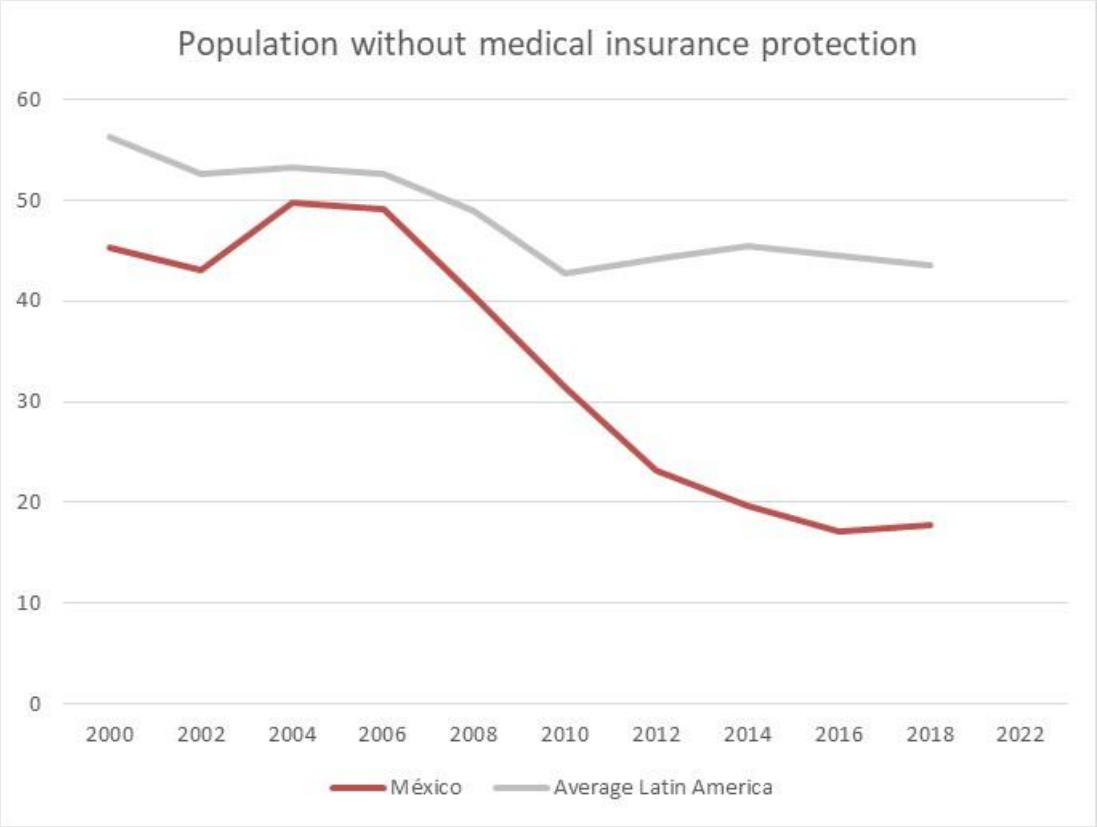


**CHART 79 SOURCE: OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 4754**

A common feature for both countries, and indeed for the whole of Latin America is the uninterrupted increase of health private insurance since the second half of the first decade of the twenty first century. Each year, larger portions of the population are subscribing insurance policies to cover healthcare, and the sector

is experiencing a rush in the region, even in a context of low economic growth since 2015, during which, both life and non-life insurances are stagnant.

The reports from private insurer MAPFRE[71], who keeps a record of the insurance market in Latin America are clear about this evolution.

| | Premiums - Million Mexican pesos | | |
|---|---|---|---|
| Mexico | 2008 | 2015 | 2018 |
| Non-life insurance | 113.565 | 206.628 | 281.085 |
| Health and accident insurance | 28.837 | 54.021 | 79.794 |

**FIGURE 80 OWN ELABORATION. SOURCE: MAPFRE REPORTS ON INSURANCE MARKET LATIN AMERICA**

| | Premiums - Million Argentinian pesos | | |
|---|---|---|---|
| Argentina | 2008 | 2015 | 2018 |
| Non-life insurance | 17.698 | 152.387 | 338.845 |
| Health and accident insurance | 489 | 53.307 | 101.672 |

**FIGURE 81 OWN ELABORATION. SOURCE: MAPFRE REPORTS ON INSURANCE MARKET LATIN AMERICA**

As we can see in figure-tables 66 and 67, the increase of health and accident insurance is colossal within the non-life insurance segment. These figures tell us first, that where the state is not arriving with sufficient consistency, the markets replace or complement the expenses, second, that there is a large number of household ready to subscribe health insurance policies, and third that in order to have a proper idea of what the region is spending on health, we should consider private expenditure.

To put this in context, a final word about the cost of health insurance in Latin America relative to the average wage. A recent report by CELAG[72], shows that the average cost of a private health insurance in Latin America is similar to the

71 The reports can be accessed online at https://www.mapfre.com/mapfreeconomics/informacion-sectorial/mercado-asegurador-latinoamericano/ Last visit 19 March 2023
72 This report be accessed online at https://www.celag.org/informe-sobre-los-precios-de-los-seguros-de-salud-en-america-latina/ Last visit 19 March 2023

cost in Spain, but the big difference is that the days of work that a Latin American needs at the average wage to pay for a private health insurance is 20 days, whereas in Spain you only need 4,2 days of work. For Argentina and for Mexico the figure is 22 days, above the average of Latin America.

This indicates that even if the evolution has been terrific in the region, there is large room for improvement in this chapter.

**Social protection and pensions**

And finally, we are going to analyse the expenditure on social protection and pensions, or what is called the social assistance or the social security system.

First of all, we need to remark that, as it has been the case in other chapters of expenditure, there has been two shifts of policies here. Let us say that in the 1980s, the management of aggregate demand was essentially through price control, investment decisions and public sector employment or through wage policy, including indexing, and later from the late 1990s, focused on equilibrium of the macroeconomic variables (Mesa-Lago & Márquez, 2007; 394). This shift was, once again, a consequence of what is called the Washington Consensus.

In the case of pension systems, the balance of macroeconomic variables made a surprise move from less public action to a larger public settlement. We must distinguish between two sets of reforms, the structural, that touch the conceptual elements of the system, and the parametrical reforms, that affect the parameters for the calculation of the pension for the workers.

As we have mentioned earlier, the paper presented in the conference organized by The World Bank about the challenges of the old age security constituted a landmark for change in the design of pension systems in developing countries (Orszag & Stiglitz, 1999). Broadly speaking, the story in Latin America goes as follows. Chile reformed its pension system in 1981 moving away from a public defined benefit pension system toward a private defined contribution (individual

account)[73] one. This structural reform in the pension system was part of the famous experiment undertaken by the 'Chicago boys', during Pinochet's dictatorship. The aim of that structural reform inspired by the teachings of Milton Friedman and other academics of the University of Chicago, was to minimize the state intervention, stimulate the development of capital markets, reduce administrative and financial inefficiencies, and eventually improve social security coverage. Encouraged by this seminal reform, and with the support of The World Bank and other multilateral organizations, other countries in the region envisaged structural reforms of the like, but never pure, in the sense that the reforms contained elements that were closer to a pure public system and elements of a pure private system. However, those reforms did not last for too long. When, at the turning of the century, the leftist tide took place, and with the invaluable and surprising help of multilateral organizations (not only CEPAL, but also The World Bank disdaining what this organism was preconizing earlier), a new wave of structural reforms of pension systems was implemented. The truth is that the results of the previous structural reforms were not as positive as expected, especially in terms of coverage (Arenas de Mesa, 2019; p. 65), and the shift supposed the biggest reverse ever seen in a policy. From the mid-2000s, the trend was towards a lower weigh of individual capitalization mechanisms, and a larger presence of public and solidarity systems. We will see that referring to our countries of study below.

| Country | Year | Model |
|---|---|---|
| Chile | 1981 | Substitutive |
| Bolivia | 1997 | |
| Mexico | 1997 | |
| El Salvador | 1997 | |
| Dominican Republic | 2003 | |
| Peru | 1983 | Parallel |
| Colombia | 1984 | |
| Argentina | 1994 | Integrated Parallel |
| Uruguay | 1996 | Mixed |
| Costa Rica | 2001 | |
| Panama | 2008 | |

**TABLE SP1 SOURCE EXTRACTED FROM CEPAL / ECLAC SOCIAL PANORAMA 2017**

73 That is to say, a system where each individual contributes and capitalizes its contributions

Table SP1 above, summarizes the first shift of structural reforms, where substitutive refers to the replacement of a public system for a private fully funded capitalization one. Parallel, refers to a system where workers must choose between a public contributory system or a private one, and moreover, the systems are mutually exclusive. Integrated Parallel combines a universal basic benefit with private capitalization, where the worker must choose one of the two systems, as in Colombia or Peru, but with a basic coverage for all workers. We finally have the Mixed systems, where public and private are complementary.

Table SP2 below reflects the second wave of structural, and in some cases parametrical reforms

| | Structural reforms | | Parametric reforms | |
|---|---|---|---|---|
| | Year | Model | Year | Model |
| Argentina | 2008 | PAYG | | |
| Chile | 2008 | Integrated | | |
| Bolivia | 2010 | Substituted (Nationalized) | | |
| Colombia | | | 2008 | Parallel |
| Peru | | | 2016 | Parallel |
| El Salvador | | | 2017 | Substitutive |
| Uruguay | | | 2008 | Mixed |
| Costa Rica | | | 2016 | |
| Cuba | | | 2009 | PAYG |
| Paraguay | | | 2010 | |
| Guatemala | | | 2010 | |
| Nicaragua | | | 2013 | |
| Venezuela | | | 2014 | |
| Honduras | | | 2014 | |
| Ecuador | | | 2015 | |
| Brazil | | | 2015 | |

**TABLE SP2 SOURCE: EXTRACTED FROM CEPAL / ECLAC SOCIAL PANORAMA 2017**

Where the public Pay-as-you-go (PAYG) system had a strong comeback. Let us notice that Mexico did not participate in this second wave of reforms. It is the only country that remains with a private capitalization system.

A factor that has undoubtedly help to this shift in policies is the fact that in the first decade of the twenty first century, workers in the formal sector of the economy have grown considerably, which has also led to a considerable increase in the base for social security and the inclusion of large layers of the population in the fundamental rights scheme. A larger base allows for a contributory system to be feasible and has also evident effects on reducing inequality. See as an example for some LA-7 countries in chart 82 to what extent formal employment has increased in the first decade of the 21st century, compared to total employment growth.

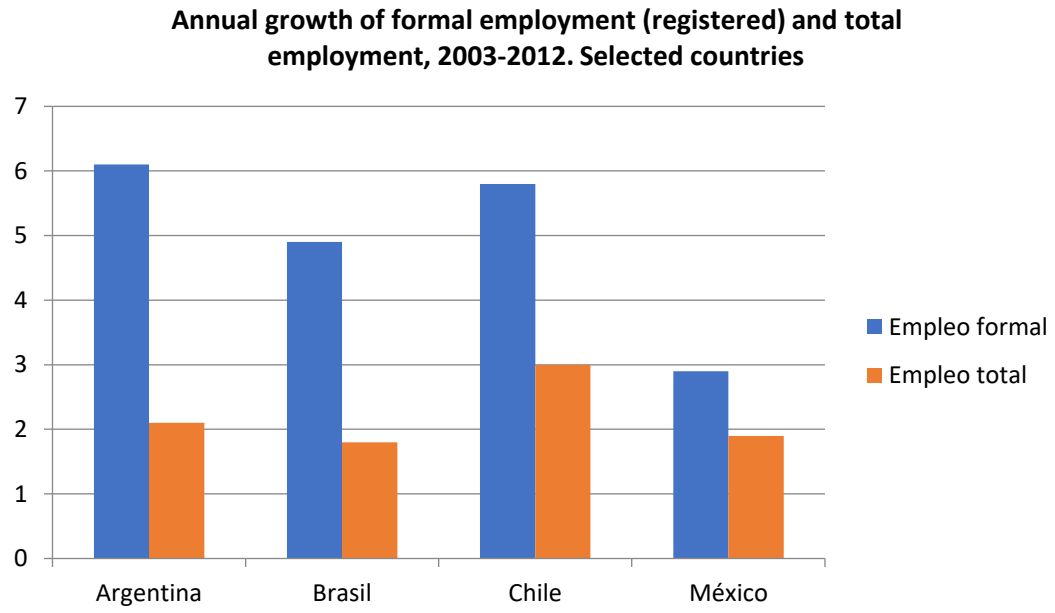


**CHART 82 ECLAC 2014. ECONOMIC SURVEY LATIN AMERICA AND THE CARIBBEAN**

More important, the increase in the formal employment sector creates a foundation that promotes the strengthening of the middle classes, and a decrease in their vulnerability and hence a fundamental economic effect, which has been extensively studied: the incorporation to the internal market of large layers of the population, with the subsequent increase in domestic consumption, which will be a cushion in the face of global crisis in which the international economies, traditional engines of economic growth in the region slowdown their own internal consumption. This is coherent with what we mentioned at the end of chapter IV, regarding the massive incorporation of people to the middle and high-income strata.

So far, what is known as the contributory pension system, i.e., pensions that are linked to formal employment and the contributions of employers and employees to the system, but we must acknowledge that the region has experienced an outstanding progress in the non-contributory pension system as well, i.e., for the individuals with no preconditions for work history. The coverage in the region has grown from roughly one million people in 1990 to more than twenty-four million people in 2016. The evidence shows that the expansion of the non-contributory pensions helps mitigating poverty and reduces the vulnerability of the layers of the population that were not in formal employment or at least not for sufficient time (CEPAL / ECLAC, 2018; p.62).

| Non-contributory pension systems and year of creation | |
|---|---|
| Country | Before 1980 |
| Uruguay | 1919 |
| Argentina | 1948 |
| Brazil | 1971 |
| Costa Rica | 1974 |
| Chile | 1975 |
| Cuba | 1979 |
| Country | 1997-2017 |
| Bolivia | 1997 |
| Ecuador | 1998 |
| Colombia | 2003 |
| Guatemala | 2005 |
| México | 2007 |
| El Salvador | 2009 |
| Panamá | 2009 |
| Paraguay | 2009 |
| Perú | 2011 |
| Venezuela | 2011 |

**TABLE SP3 SOURCE: EXTRACTED FROM ARENAS DE MESA, 2019**

Table SP3 above shows the years when the non-contributory pension systems were created in the region. We see that for most countries, the non-contributory pensions were created after the crisis of 1982. It is specially astonishing that Mexico only created this in 2007. More to be discussed below, but in any case, those sorts of pensions were not available in previous crises, and only in the great financial crisis of 2008 were in place, or even during the crisis, that in this case did not deter governments to implement them anew. All in all, non-contributory

pensions grew form 6.6% of total pensions in year 2000 to 27.8% of total pensions in year 2017 (Arenas de Mesa, 2019; p.191).

Furthermore, apart from the pension reform, the second shift in policies in the mid-2000s, also affected unemployment benefits, although instead of a proper unemployment insurance, the region is relying more commonly on conditional cash transfer programmes. After a first *avant-la-lettre* attempt in 1997, with the PROGRESA programme implanted in Mexico, these programmes have become an integral part of the social protection policies in practically all countries in the region, and once again, blessed by multilateral organizations, like The World Bank, as a means to reduce inequality (de Ferranti et al., 2004; ch.9), where this area of policy was considered very promising for the reduction of inequality, and proposed education to be placed at the centre of the conditionalities.

A novel component of social spending that has also been linked to the colour of the political party have been the various conditional cash transfer programs, such as "Bolsa Família" in Brazil[74], which is estimated to have benefited 45 million Brazilians (Weyland, 2011: loc 2055) or Chile Solidarity (Roberts, 2011) They are transfer programs to the lower income layers of society, conditioned on meeting requirements such as ensuring the schooling of children and are also temporary in nature. Beneficiaries may leave the scheme at the time they reach a certain level of income[75].These types of programs also enhance more internal demand, incorporating consumers from the lower middle class (Paramio, 2010: 14).

74 Certainly, the first conditional transfer program in Brazil was initiated by President Cardoso, but it was the government of the PT led by Lula, which extended its applicability.
75 A complete list of such programmes can be seen on the website that ECLAC has for this purpose, http://dds.cepal.org/bdptc/. Last visit August 6, 2014.

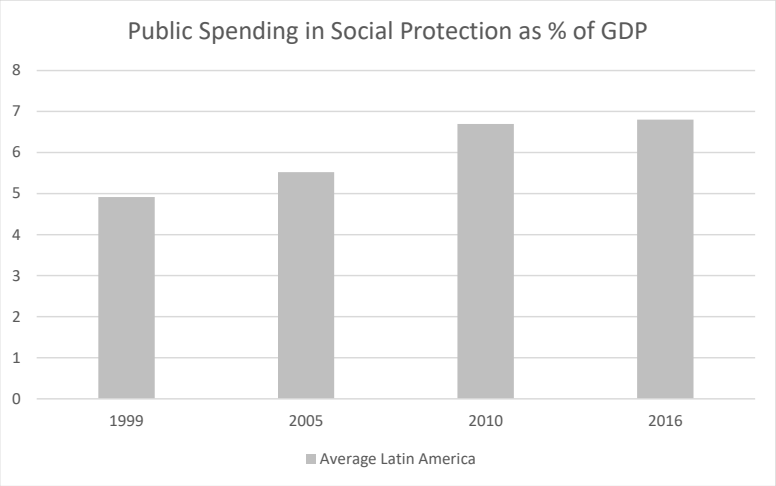


**CHART 83 SOURCE: OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 4410**

Chart 83 above shows the evolution of spending in social protection in the region, according to the ECLAC / CEPAL data.

All this said, there are big challenges for the improvement in the system, especially in terms of coverage, if we look, for instance, at the fact that around on third of the contributory pensions are below the minimum wage in the region (CEPAL / ECLAC, 2018; p.65).

Let us now look at the specificities of the two countries of our study.

Argentina

Argentina went through a first reform of the pension system in 1994 inspired by the Chilean system implanted in 1981, although with some differences, because a universal basic pension was guaranteed to all workers, independent of the system (public or private) elected.

In 2008, under the Kirchner administration, and after a few parametrical reforms in the previous years, (Arenas de Mesa, 2019; p. 79), Argentina suppressed the individual capitalization and went back to a system administered by the state. They were the first to revert the capitalization system and the challenge was how

to transfer the funds from the individual accounts of the workers to public funds administered by the government, which was facilitated by the fact that a large amount of the individual funds was invested in Argentinian public debt. However, the financial sustainability of the reform is not so clear, because in a context were ageing of the population is accelerating, and there were not actuarial calculations whatsoever that justify the reform (Mesa-Lago, 2014; P.23).

If we refer to the chapter of non-contributory pensions, as we saw in the table above, the system was created in 1948, under the first government of Juan Domingo Perón, and the coverage has been expanding, to adapt to the legislation regarding retirement age. These are complemented with a range of conditional cash transfers addressed to vulnerable segments of the population.

As for unemployment benefits, the National Employment Act of 1991 created an unemployment insurance for registered workers in the private sector.

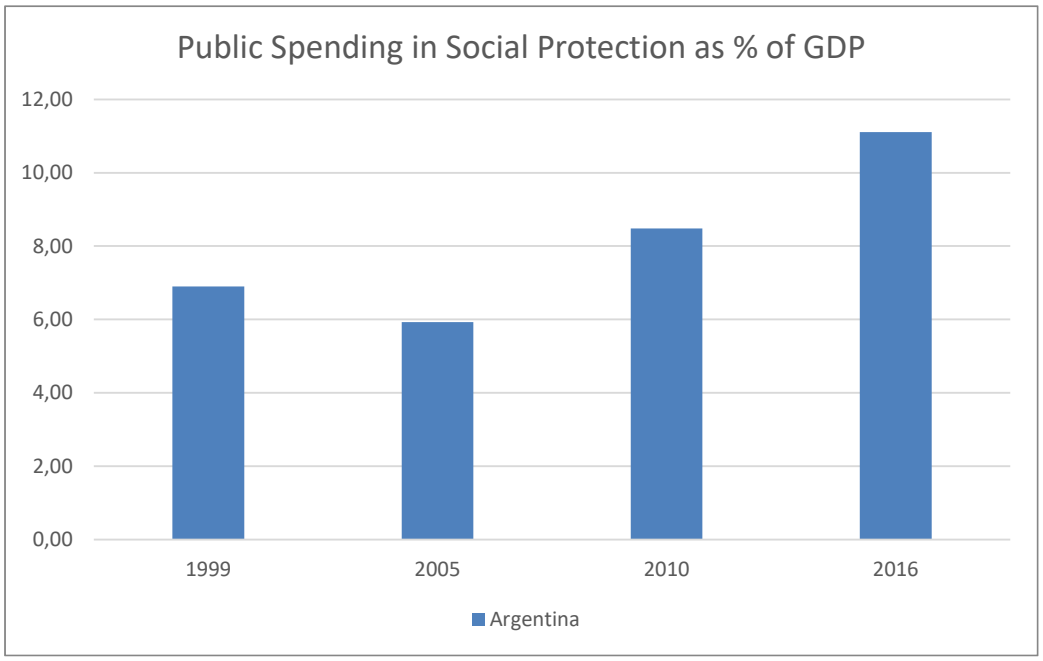


**CHART 84 SOURCE: OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 4410**

Chart 84 above shows that the evolution of public spending in social protection, except for the first half of the first decade, that included the big crisis of corralito, the trend is clearly positive, as it has been for the rest of the continent.

Mexico

Mexico is a peculiar case in the region regarding social protection. They have increased by 50% social spending between year 2000 and 2018 (as chart 70 above shows), but the total expenditure is low compared to Argentina or other countries in the region and low compared to other OECD members. It is only around 10%.

Regarding pensions, Mexico is even more peculiar, because it is the only country in the region that has escaped from the general trend of the region towards a public system. As indicated in table SP1 above, the pension system was reformed in 1997 adopting a substitutive model of individual capitalization, and it has not changed afterwards, despite recurrent debates on the matter, but to further make it more bizarre, the non-contributory coverage is massive (Arenas de Mesa, 2019; p. 192), despite the late introduction of the system in 2007, covering 58,4% of the population above 65 years old in 2017. And this non-contributory coverage explains the increase in public social spending shown in chart 85 below.

Unemployment benefits in Mexico are non-existent as such, at least until 2018. Workers are allowed to retire partial amounts from their pension fund, but there is no social protection emanating from public funds whatsoever.

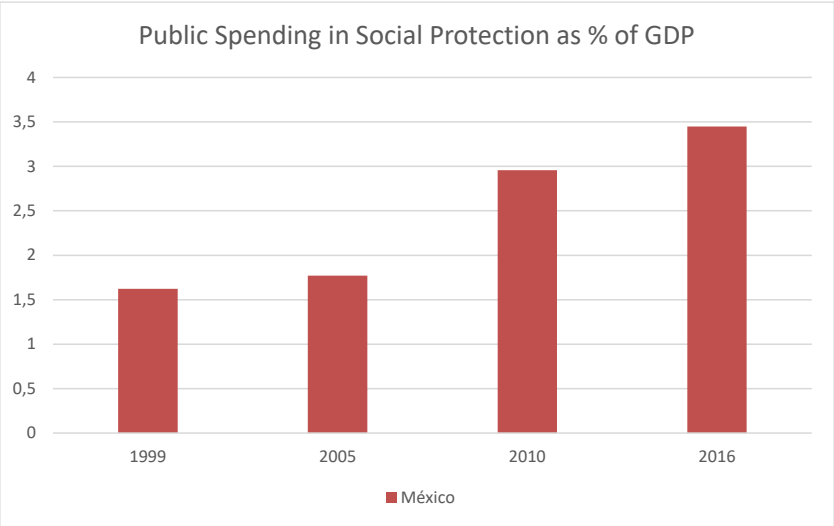


CHART 85 SOURCE: OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 4410

Empirical evidence of social spending in the region between 1992 and 2011, in the aftermath of the Great Financial Crisis, shows that in an international environment that did not favour increases, the region has managed to increase this chapter of public spending, showing that poverty and inequality are not intractable issues. To consider them this way, as Professors Huber and Stephens tell us, is to underestimate the importance of politics (Huber & Stephens, 2012; p.148). The total amount of social spending has not been influenced by the colour of ruling political parties, and instead democratic regimes (in the 1990s) and even more ruling left-wing parties (in the first decade of the 21st century) have influenced the distribution of social spending, shown a tendency to devote a higher percentage of social spending to education and health than conservative parties.

Another element to consider in the future planning of social protection is that the ageing of the population in Latin America is being much faster than in Europe at the time (Arenas de Mesa, 2019; 38), and despite the large percentage of active population, this may put pressure on social protection systems.

## Environmental protection and other social spending

Environmental protection and other social spending, like housing programmes, are the smallest chapter of social spending, as we have seen above.

Notwithstanding, waste management and water treatment have been the object of relevant investments in the last decade, to improve sewage systems and access to drinking water.

Furthermore, within the framework of the sustainable development goal of the United Nations (SDG programme), ECLAC has launched a group to assess the environment and climate change statistics. Out of this assessment, actions are being considered in the yearly budgets.

**In summary**

Let us go back to the definition of open access orders in the broad sense that we have taken. For an open access order to consolidate access to social benefits and to social protection from the ventures of the market is critical. The easier the access, the more open an order is. What we see in Latin America, and particularly in Argentina and Mexico is that

1. There has been a steady increase in social spending in the region and in Argentina and Mexico in particular
2. There has also been a steady increase in the access to education, healthcare services, and social benefits. Larger parts of the population are now benefiting from these services, and in particular in healthcare, where the state is not capable of covering all the population, the generalization of health insurance has significantly reduced the catastrophic impoverishment that was brought about in earlier periods.

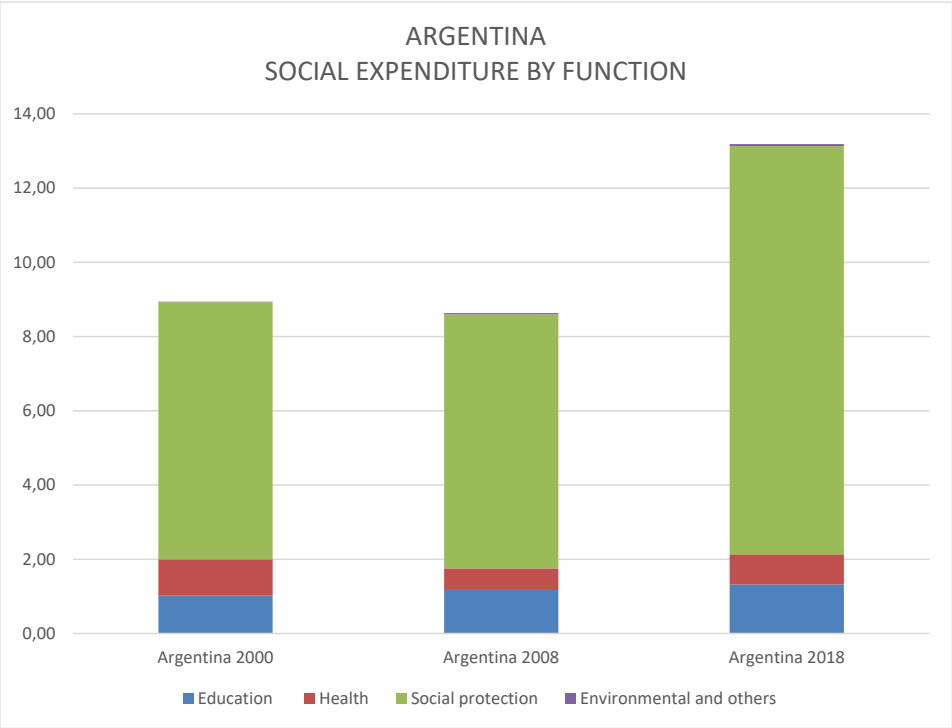


**CHART 86 SOURCE OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 4410**

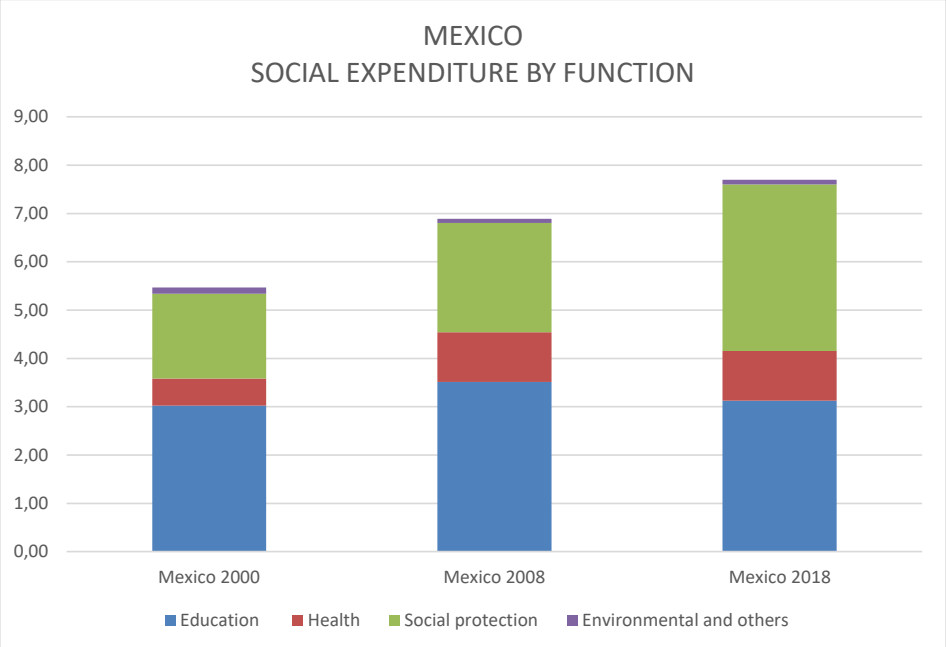


**CHART 87 SOURCE OWN ELABORATION. DATA FROM CEPALSTAT INDICATOR ID 4410**

Hence, we can infer that this variable has positively influenced the outcomes that we have seen during the great financial crisis.

As we have been insisting in this dissertation, economic variables alone are not sufficient to explain the region's good economic performance.

To illustrate this, let us look at the variable we just discussed above, social spending. From a political point of view, the region has several peculiarities in terms of the evolution of social spending with respect to advanced countries (taking as a reference those of the OECD[76]). In a thorough study, two major specialists in the Welfare State Study such as Professors Huber and Stephens, and on the basis of extensive empirical studies determined these differences (Huber & Stephens, 2012; 103 and following) as reflected in figure 73 below.

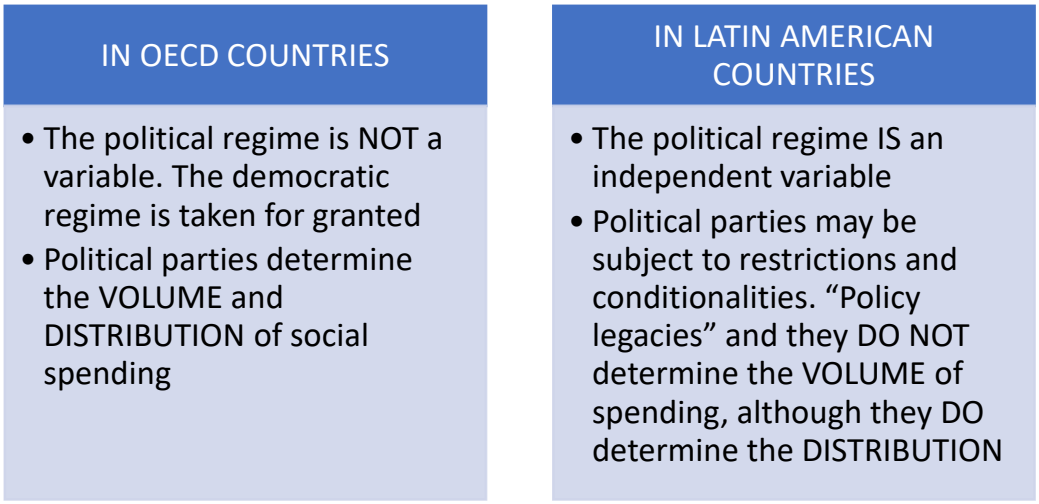


**FIGURE 88 SOURCE: OWN ELABORATION, BASED ON HUBER AND STEPHENS, 2012**

Let us briefly explain these differences. First, regarding the political regime, it seems clear that, given the variety of Latin American regimes during the last third of the twentieth century, this variable does matter when determining social spending. According to an old theory, an authoritarian regime, or a non-mature limited access order, for that matter, is more independent from civil society when it comes to making decisions, although due to the state's patrimonial origins in

76 It should be noted that Mexico has been a member of the OECD since 1994, Chile since 2010, and Argentina, Brazil and Peru are in formal talks to become members, but for the purposes of our argument, which covers social spending since the 1990s to 2010, this does not have any effect.

the region, the existence of pressure groups has affected this autonomy, and the volume of social spending has not been strongly affected.

In fact, if we move on to the second element, this issue becomes even clearer. In advanced countries, both the volume and distribution of social spending are affected by the colour of the political party in power, so that left-wing parties tend to increase social spending and lead to a more biased distribution of social spending towards transfers, conditioned or not, to the least favoured layers of society.

Huber and Stephens' study concludes that social spending has increased over the last decade of the 20th century and the first decade of the 21stcentury, that the total amount devoted to social spending has not been affected by the colour of the political party in power, but the distribution of it has been affected by political colour.

The implementation of these policies comes after the long period of adjustments that we have described in Chapter III. As we have explained, the policies of the so-called Washington Consensus contained a panoply of measures that we grouped into ten instruments of economic policy, among which the compiler of the same, John Williamson, recognized missing policies aimed at overcoming inequalities (J. Williamson, 1993).

As we have already mentioned, probably the worst thing about the so-called "Washington Consensus" is its name, especially when we take into account the timing of its implementation, just after the end of the Cold War after the collapse of the Berlin Wall, giving the impression that it was the final chapter of the triumph of neoliberal policies recommended by the United States with special emphasis since the beginning of the 1980s.

The truth is that the Washington Consensus did not result in a homogeneous implementation of the policies distributed in the ten instruments mentioned in Chapter III, but it did set a commonly accepted framework

- The application of prudent macroeconomic policies
- Consideration of markets as a mechanism for resource allocation and pricing
- Trade liberalization

It has become the common hub of political parties in power during the first decade of the 21st century., except for Venezuela and to a lesser extent Argentina, which during the government of Nestor Kirchner combined anti-Washington rhetoric with the maintenance of prudent policies (Etchemendy and Garay, 2011:loc. 6.313) and especially anti-cyclical, as we have seen above.

This common axis, with the variants in each country, has contributed to an impact on a change in the centrality of social policies, broad expanding the basis of the groups benefiting from them. In this way, the privileged groups we talked about before are no longer the exclusive beneficiaries of social spending, but in what constitutes a new step towards open access orders, social policies reach a segment of the population that was traditionally left out, while the greater formalization of work also expands the beneficiary base of social security, regardless of political or clientelism affiliations or phobias from the past.

That is, against the widespread view on the failure of the policies of the so-called Washington consensus, the truth is that they have had positive effects in favouring an institutional framework that has in the end brought political stability and allowed anti-cyclical policies for the first time in Latin American history, which have softened the abruptness of the economic cycle.

Let's look at how this is reflected in the other political variable we have selected, which refers to the parties that have acceded to power in recent years in the region.

### 5.2.2 Completion of legislatures and alternation in power – Access to political decision making

The Latin American region is far from being a homogeneous region. We have repeatedly said so all along this work, and certainly, it is not homogeneous in terms of its political development. The language is a fairly common denominator, and that brings a false impression of homogeneity, but the fact is that each country is a world in itself, just as it happens in the European continent and in other regions of the world, where different languages also split borders.

Nevertheless, one common feature since Independence was the instability in governments all along the nineteenth century, and most of the twentieth century, as in many countries in Europe, by the way, including France, Portugal, Belgium or Spain, but in the case of Latin America, instability persisted well into the last quarter of the twentieth century, except for Mexico and to a certain extent Chile, while Western Europe after World War II went into stability in the regimes, even if some of them were dictatorships, as it was the case of Spain and Portugal.

There are arguably several reasons behind this instability, like the fact that they are constitutionally presidential regimes (Linz, 1990), without the appropriate institutional arrangements for the case, or the income threshold (Przeworski, 2009), but certainly, one of the reasons behind this instability was the lack of consensus among the elites (Higley & Burton, 2006) (Cavarozzi, 1992)(Fukuyama, 2014), and as we have seen in previous chapters, unity among elites is essential to attain at least a mature limited access order (and surely an open access order). Instability in Latin America meant alternating autocratic regimes, most commonly military dictatorships, with periods of elected governments or populist leaders, and in all cases regimes that were well into the limited access order classification.

However, at the time of writing this essay and regarding the political regime, for the first time, democracy is the norm in the region. The most recent Latinobarómetro, considers, out of 18 countries, 16 democracies and two *"electo-dictaduras"* (electoral dictatorships), namely Venezuela and Nicaragua [77] (Latinobarómetro, 2023; p. 6). All countries follow procedural democratic rules

77 Cuba is not in the list. It is the only remaining country with a government not elected through a democratic electoral process

based on universal suffrage to elect governments, and one common feature to them all is the pacific alternation in power, with the sole exceptions of Venezuela, where there has not been alternation since 1999, and Nicaragua, that has remained the feud of President Daniel Ortega since 2007, hence the denomination of electoral dictatorships.

Following the distinction between open access orders and limited access orders given in the theoretical framework, procedural democratic elections are a critical factor to transit from limited access orders to mature limited access orders and eventually to open access orders. Elections only ensure access of individuals to political decision-making, and there is a panoply of indexes to measure the effectiveness of the electoral processes, but in order to measure the complete access order (also to economic resources and basic rights) we need to analyse other elements, as we will see in the appendix of this dissertation.

As noted in chapter II, we adopt Schumpeter's procedural definition of democracy: "The institutional arrangement for arriving at political decisions in which individuals acquire the power by means of competitive struggle for people's vote" (Schumpeter, 1984; p. 343). This definition appeals to the intrinsic values of democracy, but we know, following Robert Dahl, and his polyarchy conceptual approach, that only the procedure is not enough (Dahl, 2006), and this is where again open access orders conceptualization helps us.

Table 89A below shows the episodes of alternation in power since 2006 to 2018.

| Country | Year | Incumbent Party / Leader | Party/Leader | Alternation |
|---|---|---|---|---|
| Costa Rica | 2006 | Unidad Social Cristiana / Abel Pacheco de la Espriella | Liberación Nacional (PLN) / Óscar Arias | Yes |
| Nicaragua | 2006 | Partido Liberal Constitucional / Enrique Bolaños Geyer | Frente Sandinista de Liberación Nacional (FSLN) / Daniel Ortega | Yes |
| Ecuador | 2006 | Independiente / Alfredo Palacio González | Alianza PAIS / Rafael Correa | Yes |
| Peru | 2006 | Perú Posible / Alejandro Toledo | Alianza Popular Revolucionaria Americana (APRA) / Alan García | Yes |
| Venezuela | 2006 | Movimiento V República (MVR) | Hugo Chávez (MVR) | No (Continuation) |

| | | | | |
|---|---|---|---|---|
| Paraguay | 2008 | Partido Colorado / Nicanor Duarte Frutos | Alianza Patriótica para el Cambio / Fernando Lugo | Yes |
| El Salvador | 2009 | Alianza Republicana Nacionalista / Elías Antonio Saca | Frente Farabundo Martí de Liberación Nacional (FMLN) / Mauricio Funes | Yes |
| Honduras | 2009 | Partido Liberal de Honduras / Manuel Zelaya – Roberto Micheletti | Partido Nacional de Honduras / Porfirio Lobo | Yes |
| Chile | 2009 | Partido Socialista de Chile / Michelle Bachelet | Independiente / Sebastián Piñera | Yes |
| Costa Rica | 2010 | Liberación Nacional (PLN) / Óscar Arias | Laura Chinchilla (PLN) | No (continuation) |
| Uruguay | 2010 | Frente Amplio / Tabaré Vázquez | Frente Amplio / José Mujica | No (continuation) |
| Peru | 2011 | Alianza Popular Revolucionaria Americana (APRA) / Alan García | Gana Perú / Ollanta Humala | Yes |
| Mexico | 2012 | Partido Acción Nacional (PAN) / Felipe Calderón | Partido Revolucionario Institucional (PRI) / Enrique Peña Nieto | Yes |
| Venezuela | 2013 | Partido Socialista Unificado de Venezuela (PSUV) / Hugo Chávez | Partido Socialista Unificado de Venezuela (PSUV) / Nicolás Maduro | No |
| El Salvador | 2014 | Frente Farabundo Martí de Liberación Nacional (FMLN) / Mauricio Funes | Frente Farabundo Martí de Liberación Nacional (FMLN) / Salvador Sánchez Cerén | No |
| Uruguay | 2014 | Frente Amplio / José Mujica | Frente Amplio / Tabaré Vázquez | Yes |
| Brazil | 2014 | Partido de los Trabajadores / Luis Inazio Lula da Silva | Michel Temer (PMDB) | No (Interim) |
| Argentina | 2015 | Peronist movement | Mauricio Macri | Yes |
| Dominican Republic | 2016 | Dominican Liberation Party | Danilo Medina (PLD) | Yes |
| Ecuador | 2017 | PAIS Alliance | Lenín Moreno (PAIS) | Yes |
| Chile | 2017 | National Renewal (RN) | Sebastián Piñera (RN) | Yes |
| Colombia | 2018 | National Unity | Iván Duque (Democratic Centre) | Yes |
| Costa Rica | 2018 | National Restoration Party | Carlos Alvarado (Citizens' Action Party) | Yes |
| Paraguay | 2018 | Colorado Party | Mario Abdo Benítez (Colorado Party) | Yes |
| Mexico | 2018 | Institutional Revolutionary Party (PRI) | Andrés Manuel López Obrador (MORENA) | Yes |
| Colombia | 2018 | Democratic Centre | Iván Duque (Democratic Centre) | Yes |

**TABLE 89A OWN ELABORATION FROM DIFFERENT SOURCES**

Regarding alternation in power, another commonly accepted feature resides in the fact that there was, politically speaking, and we would like to stress again, as

a result of competitive elections, a left turn that occurred in the early twenty first century, which has involved several countries in the region.

One consequence of the heterogeneity that dominates the region is that left-wing parties that have attained power also show enormous diversity between them, so it is important that, apart from semantics in the denomination of the parties themselves, we define what we mean by the left.

Based on programmatic criteria and taking advantage of a study coordinated by specialists Steven Levitsky and Kenneth Roberts, we will refer to the left as those "political actors seeking as the main programmatic objective to reduce economic and social inequalities" and in particular by implementing redistributive policies (Levitsky and Roberts,, 2011:loc 306).

Figure-Table 89 below lists the countries in which the left has reached power following an election victory in chronological order, since the 1990s and until the beginning of the great financial crisis of 2008. It is important to highlight once again the fact that the access to power of left-wing parties has been after an electoral victory, which, as we have indicated, is the first time that it has been given in such a widespread way.

It is also Important for our institutional framework the year of formation of the political party, to realise the historical relevance of a long-term institutionalism in this regard.

Another aspect that is also relevant for our study, and that it is also reflected in the table is the influence of social movements on these victories, because as we have said, in the political component of our institutional framework has special relevance who has access to decision-making, and to assess whether the countries in the region are evolving towards open access orders, by admitting lawmakers from a variety of origins. This is important in the sense that the political agenda is shifting in an institutionalised manner, and not only through protests in the streets.

To analyse this aspect, we will use the data of the Parliamentary Elites of Latin America project of the University of Salamanca (PELA-USAL), led by Professor Manuel Alcántara who has among the questions of his usual questionnaires one related to the origin of the political trajectory of deputies in the legislative chambers of their respective countries (Alcántara Sáez, 2013). The question in the questionnaire is an open question, which is encoded a posteriori on the basis of the answer, and which has been asked since 1994 to Members elected in the legislative chamber. For this study, we have used the data in the table of the article cited with the following particularities:

- In column 6 of the table, we have grouped the results for the social organization, guild, and union codes

| Country | Political Party | President | Year of election | Year of political party foundation | % representatives originally from social org, guild or union (1) | % representatives originally from student org (1) | % representatives of non-party origin (1) |
|---|---|---|---|---|---|---|---|
| Venezuela | MVR/PSUV | Hugo Chávez Nicolás Maduro | 1998/2000/2006 2013 | 1997 | -- | -- | -- |
| Chile | PSCh | Ricardo Lagos Michelle Bachelet | 2000 2006/2014 | 1933 | 10,5% | 25,6% | 36,1% |
| Brasil | Partido de los Trabajadores | Luiz I. Lula da Silva Dilma Rousseff | 2002/2006 | 1980 | 18,2% | 48,4% | 66,6% |
| Argentina | Partido Justicialista | Néstor Kirchner Cristina Fdez. de Kirchner | 2003 2007 | 1945 | 12,5% | 30,3% | 42,8% |
| Uruguay | Frente Amplio | Tabaré Vázquez José Mujica | 2004 2009 | 1971 | 13,9% | 34,8% | 48,7% |
| Bolivia | Movimiento al Socialismo | Evo Morales | 2005/2009 | 1997 | 37,2% | 19,6% | 56,8% |
| Nicaragua | FSLN | Daniel Ortega | 2006/2011 | 1990(*) | 7,2% | 11,6% | 18,8% |
| Ecuador | Alianza PAIS | Rafael Correa | 2006/2009 | 2005 | 16,8% | 28,0% | 44,8% |
| Paraguay | Alianza Patriótica por el Cambio | Fernando Lugo | 2008 | 2007 | 5,6% | 25,0% | 30,6% |
| El Salvador | FMLN | Mauricio Funes Salvador Sánchez Cerén | 2009 2014 | 1994(*) | 14,7% | 8,8% | 23,5% |
| Perú | Gana Perú | Ollanta Humala | 2011 | 2010 | 14,4% | 39,1% | 53,5% |
| Mexico | MORENA | Andrés Manuel López Obrador | 2018 | 2011 | 10,5% | 19,4% | 29,9% |

(1) Question: Could you tell me what type of organization you started your political career in? Open answer
(*) Year in which they first run for election

**FIGURE 89 SOURCE: OWN ELABORATION BASED ON LEVITSKY & ROBERTS 2011, LANZARO 2010 AND ALCÁNTARA SÁEZ 2013**

- In column 7 of the table, we have maintained the student organization code, because it seems to us that in many cases it can have an important ideological component that can link them to political parties
- Column 8 is the sum of column 6 and column 7

Mobilizing agents have undergone significant variations in countries, without a common trend beyond the Church's loss of mobilization power and the emergence of social movements, but without a common pattern. There is a paradox, that the process of consolidating democracy has taken place in parallel with a strong process of traditional parties disintegration in some countries that, in some cases, has resulted in a total breakdown of the party system (Alcántara Sáez, 2013), but as this same author states, in all cases power is in the hands of civilians, and armed forces are under the control of them, which, we must recall here, is a critical element to ensure a mature limited access order. Moreover, Professor Alcántara considers the regimes as polyarchies, recovering the famous term once coined by Robert A. Dahl, which describes what in real terms is a democracy, again basically a procedural consideration with certain necessary institutions to ensure a clean process (Dahl, 2006; p 63-83), compared to an ideal democratic model, and which, by the way, resembles very much to a mature access order at the doorstep conditions, according to our description in the theoretical framework, especially if we take into account that the author acknowledges the need of control over the military as a precondition for a polyarchal democracy (Dahl, 2012; p.182).

In terms of resources and motivations, on the one hand, the educational level of the region has been better, but the differences between countries remain very high and on the other hand, the Latinobarómetro survey shows a clear willingness that citizens for protest, but as in Europe, they mobilize rather by "issues" than by general material aspects, and the theme that most mobilizes is health and education (Latinobarómetro, 2013; p.41). What we can attest, in any case is that the increase in protests is concomitant with the decrease for the support of democracy (Latinobarómetro, 2019; p. 19), although, as we said in the introduction, this indicator, specifically considering the Churchillian democracy

has improved and it is now at 66%, according to the latest Latinobarómetro report in 2023 (Latinobarómetro, 2023; p. 35).

In general, we can outline for the region the same picture as Professor Llera Ramo depicts for the Spanish case: delayed maturation in long-term processes and hasty synchronization for the most outstanding characteristics of the new stage of social movements (Llera Ramo, 2000:43).

It is overwhelmingly accepted that social movements in Latin America were key players both in opposition to dictatorships and in the processes of transition to democracy, but precisely, the fact that political action was directed towards democratic mechanisms replaced the great theme of the social revolution with that of democratic transition (Bobes, 2010). Today, the most important social movements in the region are not so much against capitalism as against neoliberalism (Stahler-Sholk et al., 2008: 7), just as in Europe, protests were at some point against the policies implemented by the troika, the famous "men in black" that the European commission sent to the Southern countries of the EU to assess the economic performance before granting the financial aid for troubled banks.

Table 74B above shows that the non-party origin of lawmakers is very relevant in Latin American parliaments, and shows a certain shift in the political elites of the countries, in a region where personal interactions have always been present also at the party level (Ruiz Rodríguez, 2020; p.184). The figure is particularly high in Argentina, with 43% of lawmakers of non-party origin, whereas in Mexico this percentage is 30%. This reality demonstrates a pact between political elites that has enabled a renovation of the traditional representatives in parliament.

We wanted to recollect in this table the total countries of the region, and we see that among the bog countries, that we have been calling the AL-7, only Colombia have not been part of this turn[78]. The case of Mexico is again peculiar, because

78 We must acknowledge that at the time of writing this dissertation, Gustavo Petro has become president of Colombia, signalling a left turn for the first time in that country, but being the case that this happened in 2022, out of the time frame of this work, we have kept it out of the table.

the left only reached the presidency in 2018, although there were several states of the federation that are governed by the PRD, and more recently by MORENA, the leftist spin-offs of PRI, including for many years the Federal District.

A separate case is Peru, which after a convulsive end of the authoritarian century and after a government with a strong technocratic component[79] of President Alan García has given way to a government of diffuse ideology, but which in the words of its president, Ollanta Humala, takes as a political reference the Brazilian model of Luiz Inácio (Lula) da Silva. After president Humala left power, a succession of right-wing and technocratic governments were in place in Perú, starting with Pedro Pablo Kuczynski, who resigned just before the vote of a second impeachment against him, when he was caught trying to buy votes for that impeachment. The deputy prime minister was elected by constitutional succession, and yet another two presidents were designated by constitutional succession until Pedro Castillo won the election in 2021 supported by a coalition of leftist and indigenous parties. As of December 7th, 2022, a new constitutional succession took place in Perú, after a failed self-coup by President Castillo. At the time of writing this essay, Ms Dina Boluarte is in office, under pressure of protests in the streets. However, what is important to highlight in the case is that institutionality has worked. Despite the instability in the government, the channels of the rule of law have been respected and the constitutional successions have worked, without causing a regime change.

Therefore, we can conclude that there has not been a violent regime change in the region since year 2000, except for Honduras in 2009, when the Honduran Army ousted President Manuel Zelaya elected in 2006. It is important to note that the Army did not take power, and the president of the Honduran congress acted as president until new elections were held in 2010, only seven months after the coup. This is an absolute novelty in the region and marks a step ahead towards the transition to open access orders.

79 The accusations of technocratic between the governments of Ollanta Humala and Alan García are the order of the day. See, for example, the interview with the then aprista deputy prime minister in Alan Garcia's government in http://www.ideeleradio.org.pe/web/wNoti.php?idN=10236&tip=especiales, last visited August 7, 2014.

As for the role of social movements, a whole field for research is opened to examine, for example, what influence the presence of Members from social movements has on the issues that become part of the political agenda and how the institutional framework of each country moderates or radicalizes social policies in each case.

What we want to highlight in this work is that the left turn in the region has led to the extension of social policies that have generally had a positive effect on key aspects in the redistribution of wealth that has been reflected in the improvement of the Gini index as we have seen above, and without harming economic stability in terms of inflation or public debt, since this redistribution has been done with the help of expanding the tax base. It is clear that it is still insufficient, but the steps are positive.

Moreover, this turn has taken place in an environment of political stability, with legislatures that have generally come to an end or if interrupted, resolved by the channels provided for in the legislation itself. Therefore, it is important not only that alternation in power has been taking place since the end of the 1990s, but the mere possibility of being reached by electoral route, thus resulting in conservative parties, in the style of what has happened in Europe throughout the twentieth century[80], have appropriated the redistributive programmes that have traditionally been the heritage of left-wing parties. As the Spanish author, Juan Manuel de Prada says, conservative parties are bound to "conserve" the social policies that the left put in motion[81].

This peaceful and usually smooth succession of elections and alternation in power looks, however, contradictory in the light of the apparent weakening support for democracy in the region[82], as we mentioned in the introduction to this dissertation. According to the latest Latinobarómetro, only 48% of the population

80 For example, in Ecuador, Lucio Gutierrez's dismissal in April 2005 was resolved by a constitutional contraption, with an electoral call for the following year. Something similar happened in Paraguay in June 2012. Only in Honduras, there has been a military coup in June 2009, but the army did not take power, and in November 2009 elections were held

81 See ABC Jan 18th, 2023

82 In fact, it is a global trend that affects all regions in the world

supports democracy (Latinobarómetro, 2023), but this comes together with 66% of the population that considers democracy as the best regime at hand (Churchillian democracy). To explain this paradox, we must take into account that the Latinobarómetro, as well as other surveys, are precisely surveys addressed to the total population, and the answers depend on what the individuals think that democracy is. That is to say, the popular understandings of democracy in each case, and therefore, we must draw our attention to those popular understandings. The idea behind this is that verbal support for democracy in a survey is not a solid indicator of the legitimacy of a given political regime, as long as it does not disclose the motivation driving the respondent to express that support.

A recent work by Yun-han Chu[83] (director of the Asian Barometer) and his colleague Jie Lu sheds light on this matter by defining four typologies of popular understandings of democracy (Lu & Chu, 2022), ranging from the emphasis on the intrinsic values of democracy (or also liberal or procedural) to the instrumental values of democracy (or also illiberal or substantive), and acknowledging that depending on where the emphasis is placed, there may be a more or less willingness to trade off democratic principles for instrumental gains. Where emphasis on intrinsic values prevails, democracy is less vulnerable.

This links with the idea stated by professor Welzel, that for democracy to survive, what matters is the extent to which intrinsic (liberal/procedural) support outweighs instrumental (illiberal/substantive) support, and the fact that the prevalence of emancipative values is a better predictor of democratic stance than the simple verbal support (Welzel, 2021; p.136). What should be understood here is that verbal support needs to be crossed check with the popular understandings of democracy, to have a clear view of what people are verbally supporting.

In order to capture the different popular understandings of democracy (PUD), Professors Lu and Chu have designed an instrument consisting of a battery of sixteen items grouped by four key aspects of democracy (four for each group) that respondents should rank when asked randomly about them (Lu & Chu, 2022;

83 Professor Yun-Han Chu recently passed away, leaving behind an outstanding number of contributions to political science https://www.asianbarometer.org/content?nid=58

p.28), applied to data compiled by the Global Barometer Surveys (GBS II) from seventy-one societies plus North America[84]. We are not going to get into the details of the instrument, whose validity is justified in the cited book, but let us just mention the four groups of key aspects (or ranking sets)

1. social equity,
2. good government,
3. norms and procedures,
4. freedom and liberty

And the groups of respondents that they identify (op. cit. p. 40)

- The agnostics, who did not respond to three or more ranking sets (out of the four above)
- The benefit-seekers, who mostly identify indicators on groups 1 and 2 above
- The principle-holders, who mostly identify indicators on groups 3 and 4 above
- The fence-sitters, who identify a bag of mixed indicators

The work has many interesting results, but for the purpose of this dissertation, we will highlight the following regarding our region of study

- On average people in Latin America compared to other regions in the world are more inclined to prioritize the intrinsic values of democracy that pertain individual's dignity and inalienable rights through appropriate institutions, whereas East Asia and North Africa are far more inclined to the instrumental values of democracy (op. cit. p. 49),
- Latin America has the lowest number of *fence-sitters,* although *agnostics* are relatively high (op. cit. p. 53)
- The region is quite homogeneous in the number of *principle-holders*, Ecuador being the low range at 34% and Peru the highest at 56%.

84 The GBS compiles data form six regional barometers, including Latinobarómetro. See https://www.globalbarometer.net/partners. The work by Professors Lu and Chu does not consider neither Europe nor Oceania.

> Argentina ranks at 52% whereas Asian societies are also homogeneous, but within a much lower range (op. cit. p. 55)

And in general, no matter which region, and considering the origins of varying popular conceptions of democracy

- On average, individuals with a higher level of education and more interest in politics are inclined towards an intrinsic conceptualization of democracy, (op. cit. p. 95)
- A society's higher socioeconomic development favours the number of *principle-holders* and makes its population more homogenous. (op. cit. p. 96)

At the theoretical level, this is consistent with the fact that those individuals are also more willing to embrace emancipative values (op. cit. p. 95), who consequently will be more willing to support arrangements that protect such values, and hence, again, less willing to trade democratic principles for instrumental benefits. Unfortunately, professors Lu and Chu do not cross-check this with the appropriate indexes extracted from the World Values Survey, but we will analyse that particular evolution (without cross-checking, because we do not have the means, nor the time to do it) for certain countries in Latin America in the final chapter of this dissertation.

Nevertheless, we can conclude that just by looking at the verbal support of democracy that surveys like Latinobarómetro show, we cannot determine the resilience of democracy, and that by analysing deeper the conceptualization of democracy that individuals have in mind, and its origins, we can have a better insight into it. The Latinobarómetro already gives a hint, as we have repeatedly mentioned with the (still) extensive support for Churchillian democracy, but the work of professors Lu and Chu corroborates this with massive empirical data.

The end of the Cold War, which we have already mentioned, has been a very important factor, since the ideological reference represented by the Soviet Union was discarded and discredited in a typical case of pendulum effect, that

nowadays has been moderated, but which at the beginning of the last decade of the twentieth century, allowed for easier acceptance by governments of the policy instruments that constituted the Washington consensus. However, the absence of tensions arising from the confrontation with the former Soviet Union also allowed for a relaxation of U.S. interference policies in the region, favouring the birth of a moderate left in the region that eventually reached power through electoral processes (Levitsky & Roberts, 2011b; loc 399).

We cannot say that the left turn was just a direct consequence of the neoliberal policies applied during the last decade of the twentieth century. Certainly, the end of the twentieth century was characterized in the region by the so-called half-lost decade (1998-2002) that eroded the popularity of parties in government, while effectively influencing the exhaustion of the policies of the so-called Washington consensus (Levitsky & Roberts, 2011b; loc 411), but we insist on the former. After a last decade of the twentieth century with conservative party governments, there has been an alternation in power typical of countries that are mature limited access orders transitioning to open access orders.

| Original Washington Consensus | "Augmented" Washington Consensus |
|---|---|
| 1. Fiscal discipline | 11. Corporate governance |
| 2. Reorientation of public expenditures | 12. Anti-corruption |
| 3. Tax reform | 13. Flexible labour markets |
| 4. Financial liberalization | 14. WTO agreements |
| 5. Unified and competitive exchange rates | 15. Financial codes and standards |
| 6. Trade liberalization | 16. "Prudent" capital-account opening |
| 7. Openness to FDI | 17. Non-intermediate exchange rate regimes |
| 8. Privatization | 18. Independent central banks / inflation targeting |
| 9. Deregulation | 19. Social safety nets |
| 10. Secure property rights | 20. Targeted poverty reduction |

**FIGURE 90 EXTENDED WASHINGTON CONSENSUS. TAKEN FROM RODRIK, 2006**

Thus, the reality is that by the middle of the first decade of the twenty first century, the ten original policy instruments of the so-called Washington Consensus had been extended to at least ten others, which tempered those features that were openly neo-liberal (Rodrik, 2006: 978).

As the author himself acknowledges, another equally broad alternative list could probably be made, but let us notice that there are at least two policy instruments that explicitly involve greater social expenditure (instruments 19 and 20 of the table), which is consistent with what we said in the previous paragraph.

Let us look now at our two countries of interest, to analyse alternation and the resilience of democracy in those countries.

In Argentina, we can trace back the birth of political organizations to the 1890s, when the Unión Cívica Radical (UCR) and the Socialist Party (PS) were born. The first trade unions had also its origins by the end of the nineteenth century, promoted by European immigrants, but the real central player in Argentine politics since its birth in 1946, was the movement around Juan Domingo Perón and the Justicialist Party (PJ), that not only dominated the political arena, but also controlled the trade unions. It is important to point out that until very recently, there was no tradition at all of bargaining among the elites in Argentina, embedded in a tradition of authority relations that only tried to impose elite unity, failing both to unite the whole and represent the parts. Moreover, the military reproduced the same failures when they held the power (Cavarozzi, 1992; p. 236).

For our purposes, we must highlight that the longest period of elections and even alternation in power (see table 74B above) started in 1983 after the end of the last military dictatorship in the country. Since then, the military has not dared a coup, despite the crises that have hit Argentina. This nearly forty years conform the longest period without a military in government, which is a sign that the control of violence is at last in civil hands.

As for the political elites, table 74B shows 42,8% of representatives from non-party origin, which is already a sign of aperture to formal political decision making. According to most scholars, elite convergence was the way to transition from the military rule. To begin with, the military just abandoned political power after the defeat in the Falklands War, and so Peronists and Radicals were not forced to reach an agreement to force the military to give in power (Cavarozzi, 1992;

p.227), and later once the Peronists were in power, the Radicals, and particularly ex-president Raúl Alfonsín, favour the Olivos Pact in1993 that allowed for Menem to be in office for two consecutive mandates, although the president became less powerful, in favour of the parliament with the constitutional reform of 1994 (Higley & Burton, 2006; p. 153). This reinforcement of parliament had the unintended consequence of helping to keep the institutional arrangements to deal with the huge crisis of 2001, when five presidents left and took office in less than two weeks, one of them literally fleeing from the presidential residence, as we have mentioned earlier in this dissertation. For the first time, contrary to the old constitution of 1853, the parliament had the power to name a new president avoiding a power void, and reinforcing Argentina's democracy (Schamis, 2002; p. 90). Consequently, we can say elite convergence and quasi-parliamentarism came to the rescue of Argentine democracy, although has not have been enough to definitely transform the country into an open access order, as we will see below.

As for current social movements, the crisis of 2001 gave birth to several social movements, that gathered to demand jobs and put an end to a corrupt and clientelist system where the trade unions had a large say (Trigona, 2014; loc. 7113). They were generally known as the *piqueteros*. Some of its members are nowadays representatives in Congress [85] parliament, or are part of the government[86], showing a more open access to political decision making than at the beginning of the century.

Mexico certainly followed a different pattern, shaped by a revolution and a civil war following the end of the *Porfiriato*, that marked the country from that time onwards and eventually gave birth to the two dominant political parties in the twentieth century, the Institutional Revolutionary Party (PRI), founded as National Revolutionary Party (PNR) in 1929 and the National Action Party (PAN) founded in 1939,as a conservative and catholic response to the PRI. A third political party

85 The latest to become representative has been Juan Marino, founder of the Piquetero Party. See Página 12, Aug 3rd 2022 https://www.pagina12.com.ar/440793-la-historia-de-juan-marino-el-dirigente-social-que-reemplaza

86 This is the case of Emilio Pérsico, founder of movement EVITA, against social exclusion and now secretary of state for social economy.

that is fundamental in Mexico's recent history is the Party of the Democratic Revolution (PRD), which was founded in 1989 by ex-PRI left wing members. It is important to note that after the revolution, the military was always under the control of civilians, which is, as we have repeatedly said, a critical element to attain an open access order.

If Perón was the critical personality in Argentina, in Mexico, we cannot talk of a political current led by such a character. In fact, after the Mexican revolution, power was not so personalised in Mexico, and it was all in the hands of the political parties, or rather, for nearly seventy years, in the hands of the Institutional Revolutionary Party. But still, we must highlight the figure of President Plutarco Elías Calles, who founded the party after the assassination of another relevant figure, and to a certain extent Plutarco's mentor, Álvaro Obregón. Obregon's assassination, by the way, was not exactly political, but rather religious. Both Obregón and Elías Calles were anticlerical[87], and they favoured the definite separation between church and state. Obregon had served as president of Mexico between 1920 and 1924, he was succeeded by Elías Calles between 1924 and 1928 and was running unopposed for a second presidency in 1928, but he was slayed by a catholic activist, before he could take office. In this critical juncture, President Elías Calles decided not to prolong his presidency, and guided the elites of the moment, the so-called revolutionary family, to name an interim president, Emilio Portes Gil, and found the PRI as we have said. The fact that the revolutionary period was chaotic and violent was certainly critical at favouring the settlement in 1928 (Higley & Burton, 2006; p. 74), but, if recognised as a settlement, rather than a convergence, scholars acknowledge that it was incomplete, because it only (and that was an arduous challenge) encompassed the revolutionary family and left out the Catholic Church and to a certain extent the business sector, which was itself disunited, as a legacy from the old regime (Knight, 1992; pp. 119-120), as well as an incomplete land reform (Díaz-Cayeros, 2013; p.245). As Professor Knight explains, the relation of businessmen with the

87 For certain historians, the fact that Elías Calles was an illegitimate son, marked his anticlerical stance (Krauze, 1997; p.322-323).

revolutionary family was pragmatic, especially considering that some businessmen were also revolutionary leaders (op. cit. p. 121).

Another victim of the settlement was the main trade union of the moment, that was also created under Calles's support, the Confederación Regional Obrera Mexicana (CROM), but that have become a threat due to the ambitions of its leader, Luis N. Morones, and ended by spinning off into the Confederación de Trabajadores de México (CTM) by the mid-1930s (Díaz-Cayeros, 2013; p. 252), that became an essential support for the PRI, although it has been able to adapt to the new times with Andrés Manuel López Obrador as president[88].

We do not need to explain here what the PRI means in the history of Mexico, but for our purposes, we will highlight that the PRI lost the elections for the first time in year 2000 against the PAN, when the former governor of Guanajuato, Vicente Fox Quesada, became President of Mexico. It was the first alternation in power in seventy years. The PRI won the elections again in 2012, and in 2018 a left turn finally took place when the Movement for National Renewal (MORENA) won the elections, bringing Andrés Manuel López Obrador (AMLO), in his third attempt, to the presidency of the republic.

From our point of view, the first alternation in power was the result of another elite pact (we would say this time an elite convergence) between political and economic elites, who after the nationalization of commercial banks in 1982, that we mentioned above in this dissertation, saw the need for larger check and balances on the executive branch (Cadena-Roa, 2003; p. 127). This elite pact weas evident when the PRD (or rather its immediate predecessor, Frente Democrático Nacional) led by Cuauthemoc Cárdenas, was not allowed to win the elections held in 1988, and the electoral reforms were passed to strengthen the power of the Chamber of Deputies and the Senate, and candidates from PAN won some governorships in States of the Union. Cuauthemoc Cárdenas, with the PRD, became Head of Government of Mexico City in 1997.

88 See Expansión Feb 23rd 2020 https://politica.expansion.mx/mexico/2020/02/23/la-octogenaria-y-priista-ctm-abraza-a-lopez-obrador

It is worth stopping by MORENA and explain briefly the genesis of the party governing Mexico since 2018. It was created in 2010 as a civil association by Andrés Manuel López Obrador, while he was still a member of PRD and as part of the presidential campaign of 2012, and promoting what he named the fourth transformation (4T) of Mexico, after the three previous ones, namely Independence, Reform, and Revolution[89]. They declare themselves heirs of Mexican social movements that promote citizens' rights. They are multiclass and specifically not against businesspersons, but against the exploitation of human being, corruption and ill-gotten wealth, whose source is the neoliberal policies implemented since the 1990s. In an interview held in 2011 (Ballesteros, 2014; loc. 845) with Jesús Ramírez Cuevas, a prominent member of MORENA and, at the time of writing this dissertation, spokesman of Mexican government, he affirms that Mexico is still under the control of thirty families, which you can verify by analysing the board members of two big media groups of Mexico, Televisa and TV Azteca, and MORENA was born to change that, not with an ideological baggage, but through a new narrative that will recover the national imaginary and the national history as the banners of struggle (ibid. Loc. 938). MORENA would transform itself into a political party after the defeat in the presidential election of 2012 and splitting from PRD, and it is the epitome[90] of how to combine protests and performativity to (1) frame protests and claims within a diagnostic that blames corruption and neoliberalism for the situation, (2) raise the emotions of their target publics through issues, rather than material claims and (3) move it into the party system and then to the presidency (Cadena-Roa & Puga, 2021; p. 113), in, what we would say, an exercise of moderation and institutionalisation, and again a sign of openness in the access to political decision making.

One last word about Mexico is mandatory before we go on. Violence is a big issue in the country. Despite the improvement in institutionalisation, the country has not avoided the drug trafficking mafias pervading the system. The usual route is through the local governments, that are easier to penetrate, ensure the cartels

89 See Principios fundacionales de MORENA https://lopezobrador.org.mx/wp-content/uploads/2013/02/Declaracion-de-Principios-MORENA.pdf Last access August 3rd 2023

90 The immediate previous reference was the Zapatista movement, MZLN, who also used high doses of performativity with masks that stressed the collective identity, marches, and occupation of public spaces, among others.

access to insider information, the protection of local police and access to public resources that would allow them to launder illicit money (Integralia, 2021), and then the cartels mount up to the governorships and higher instances. According to Professor Edgardo Buscaglia, a Mexican expert in organized crime teaching at Columbia University and also member of Global Initiative[91], the end of the PRI's centralised hegemony has doped state governor's powers that have now the ability to negotiate directly with the organised crime, who consequently has improved its negotiating stance and extended their tentacles all along Mexico, and the policy of 'hugs not bullets' preconized by AMLO is not seemingly helping either[92].

Therefore, we see that, even if with very different trajectories, both Argentina and Mexico are in a stream of holding periodic elections completing the legislatures, or respecting the constitutional arrangements if the legislature is interrupted. They both permit alternation of power to occur through pacific methods and there has been a clear opening of the political decision making to other layers of society. The agreements among the elites are robust enough to ensure the rules for power alternation are upheld, but as we will see below, not enough to secure an open access order.

### 5.2.3 Policies that reinforce the institutional framework – access to economic resources

Thus, we come to the last of the independent variables in this section that can help explain Latin America's good behaviour in front of the crisis. Noticing that so far, we have been talking about a change in the institutional framework, we will see in this section examples of institutions and organizations where this institutional change is revealed. We will see that the evolution towards the depersonalization of the exchange and the depersonalization of power that we claimed as necessary for structural change (i.e. for a society to evolve towards

91 See profile in https://globalinitiative.net/profile/edgardo-buscaglia/ Last seen Aug 31st, 2023.
92 See Le Monde hors-série mai-juillet 2022, "Les Mafias. Quand le crime organisé menace le monde"

an open access order) as we described in Chapter II, are reflected in certain changes in institutions and organisms.

If we recall, what has remained of the so-called Washington Consensus is summed up in three principles: preference for prudent macroeconomic policies, respect for markets, and trade liberalization. These principles have been accepted by the generality of political forces, and also by the majority of social movements, as we have already mentioned.

It is also accepted that those policies allow for a better access of individuals to economic resources, by creating a level playing field for entrepreneurial initiatives and the commercial exchange in general.

In our region, this playing field has been principally conditioned, as we have seen in chapter III, by the patrimonial origins of the new independent republics, as well as a number of external factors, and geography, that set a framework of high transaction costs, and the prevalence of authority relations over bargaining relations, and consequently a prevalence of personal exchange over impersonal exchange.

It is worth highlighting at this point, that both in Spain and in France, also patrimonial states, free access to economic resources came earlier than free access to political decision making. In both countries property rights were secured since the early nineteenth century with land and trade registries in full operation. For instance, in France, citizens could incorporate limited companies with a certain protection against bankruptcy since the *code de commerce* of 1808, earlier than in Britain, and truly limited liability corporations (*société anonyme*) with just a registration process, but not previous authorization, since 1867 (North et al., 2009; p. 225). In Spain, this was possible since 1869, with some setbacks later, and definitely since 1885 (Ansón Peironcely, 2015; pp. 620-622).

If we look at our two main countries of interest for this matter, In Argentina the first business code, passed in 1859 for Buenos Aires, and as a national law in 1862, did not allow for joint stock companies to be freely incorporated. Mr Vélez

Sarsfield, one of the authors of the code, expressly stated that “since joint stock companies constitute an exception to general laws, they must be specially authorized […] and that only reasons of a great public interest can justify such authorization” (Mariluz Urquijo, 1965). It was only after a reform of the code passed in 1912 that any company could be incorporated in Argentina without the government authorization (Angulo, 1962). The most recent reform of the trade code in Argentina dates from 2015, which managed to clarify the multiple regulations existing at the time.

In Mexico, according to different sources, it was with the business code passed in 1934 (Ley General de Sociedades Mercantiles), that allowed for joint stock companies to be constituted without prior governmental authorisation.

But let us go to Latin America nowadays. As a sample, let us take the Latinobarómetro report, which asks respondents about support to market economy. Although support varies, mostly related to the economic growth of the moment the percentage of people who support keeps consistently above 50% of the population, as we can see in chart 91 below.

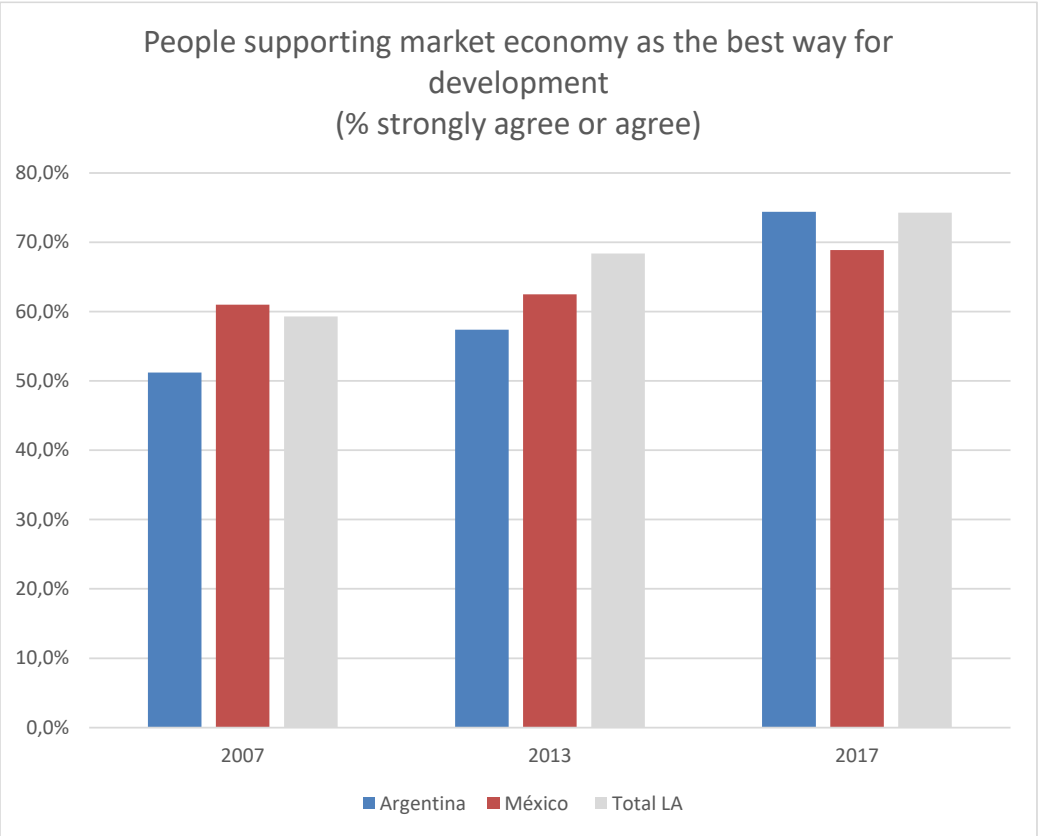


**CHART 91 SOURCE: OWN ELABORATION, DATA FROM**

According to our theoretical framework, what seems to have happened in the last two decades in the region is that the acceptance of the basic principles we have mentioned (prudent macroeconomic policies, respect for markets and trade liberalization) has favoured the construction of an institutional framework that incentivises productive investment and the achievement of anti-cyclical economic policies that have made better use of the good timing of international markets and on the political side, consolidation in democratic functioning.

In sequential order, in the real world, what exists is a process of positive feedback. Initially, the pursuit of socio-economic development, recognizing that even authoritarian regimes require to build a reputational capital, led the elites to adopt the fundamental principles mentioned. This marked the initial stage in establishing the current institutional framework. We can argue that this minimum agreement within the elites was a sort of elite convergence that expanded in

institutional alterations that gradually allowed for opening access to economic and political resources for the lower layers of the population.

These circumstances were favoured by a critical mass of well-formed elites willing to assume these principles, along with an international environment dominated by the end of the Cold War that, on the one hand, left us without alternative references to the market economy and, on the other hand, allowed the winning power, the US, to be more flexible in the concretion of those principles. The centre of the debate ceased to be a planned market or economy, to be a variety of market economy (Halperin Donghi, 2008: 43)..

The restrictions that have been imposed in the region have formal components and informal components, which have generally supported the consolidation of democracy.

In the political order, suffice to mention the constitutional reforms that took place in the 1990s, that marked a trend towards systems with a lesser bias towards presidentialism and which established a series of guidelines in various areas of politics (Lanzaro, 2010; p.12), certainly under a myriad of influences, and not only the so-called Washington Consensus, which resulted in greater power for parliaments, for judicial or electoral organizations, in what is another step towards the depersonalization of power.

We have seen the effects of this in various examples in Argentina, during the 'corralito' crisis, and in Perú, Ecuador among other countries in recent years.

In the order of international relations, these two decades have been deepening regional integration processes that again impose restrictions that help consolidate democracy and distribute power in international organizations, such as councils where the presidents of the affected countries sit.

And of course, the institutional change that we have been recounting brings with it the formation of organizations in line with it that help consolidate the new institutionality born and that suddenly have something to say in political decision-

making, which moderate the power of the executive on duty, the power of the president in his case. We are in an institutional change in which the depersonalization of power takes centre stage.

In Argentina, we can take the Olivos pact that we mentioned above as an example of this elite convergence, that derived in the constitutional reform[93] of 1994, that not only gave more power to the parliament, but also emphasized the protection of property rights, declaring property inviolable (Section 17), and creating the Council of the Magistracy as an independent body to administer the judiciary power (Section 114).

In Mexico, as we explained above, elite settlement had some peculiarities, because it was incomplete in 1928-1929, but allowed for a less personal exercise of power. Constitutional reforms were not frequent, but we can highlight the reform of 1992 allowed for the recognition of indigenous communal land, and legislation following the NAFTA agreement to secure foreign investment and property rights, including intellectual property.

Let us delve a little more into the depersonalization of power and take an example of an organization, which, although it had existed since the early twentieth century, has acquired a relevant notoriety in a key economic aspect, such as inflation control: central banks.

When we talk about power, it is normal to immediately think about political power and in the case of Latin America in personalized, pyramidal power, often with a dictator at the top corner of the pyramid. The reality is more complex. Even in the most authoritarian systems there are stakeholders that are key in supporting political power and that provide, like not the necessary institutional balance.

In heavy patrimonial states such as those in Latin America, these groups were inbred protected. Exchange relations are strongly personalized, as an extractive economic model or also called "rent seeker" predominates, which incentivizes

93 The text in English of the Argentine Constitution of 1994 can be accessed at http://www.biblioteca.jus.gov.ar/Argentina-Constitution.pdf Last visit Dec 6th, 2022.

very little innovation and investment. Equivalence in the political order is a personalized power, not necessarily in a powerful and intelligent leader, but in small and very jealous interest groups of his privileges.

However, as socio-economic development progresses for a number of reasons, including the entire period of state-led industrialization, with all its inefficiencies, but which, as we have seen, led to a period of strong economic growth in the region, the institutional balance begins to break, which, not forgetting the context in which it occurs, causes institutional change.

Let's look at the example with the central banks. These organizations, given their eminent and economic character and their proximity to power, are very inbred entities.

Since the mid-1990s, they have gone from servile organizations of governments, ready to finance the excesses of their rulers to being organizations governed by collegiate bodies.

Table 3.7 Central banks and major reforms of the 1990s

| Entity | Year of found. | Constitutional reform | Organic reform law | Key functions |
|---|---|---|---|---|
| Central Bank of Argentina (page, BCRA web http://www.bcra.gov.ar/index.asp). INAP source http://www.sgp.gov.ar/contenidos/inap/publicaciones/docs/modernizacion/ref97.pdf | 1935 | 1992/1994 | Organic menu of the BCRA. Law 24144. Year 1994 | Independence of operation. Inflation control. It cannot finance the nation or the provinces. Senate-appointed authorities. Term of governor longer than presidential term |
| Banco Centra do Brasil and Conselho Monetário Nacional. Source http://www.bcb.gov.br/?HISTORIABC. National Financial System http://www.bcb.gov.br/?LEISCOM | 1964 | 1988 | Law 4595. Year 1964. Law 9069. Year 1995. Supple | There is no explicit constitutional mandate, but in practice, the laws enacted guarantee the autonomy of monetary policy. Control of the country's inflation and development. |

| | | | | |
|---|---|---|---|---|
| | | | ment Act 105. Year 2001 | |
| Bank of the Republic – Central Bank of Colombia. Source: http://www.banrep.gov.co/es/normatividad-banco | 1923 | 1991 | Law 31. Year 1992 | Independence of operation. Inflation control. Monetary stability. Prohibition of giving credit to the private sector, but they can give credit to the Government under Parliament's approval. Term of governor of equal duration as presidential term, but periods do not coincide |
| Central Bank of Chile. Source: http://www.bcentral.cl/acerca/ley-organica/index.htm | 1925 | 1980 | Law 18840. Year 1989 | They are independent in operation. Inflation control mandate. Prohibition of giving credit to the Government. Term of governor longer than presidential term |
| Bank of Mexico (Banxico) Source: http://www.ban.org.mx/ | 1925 | 1993 (constitutional reform) | 1994 | Independence of operation. Inflation control mandate. Government credit only in conditions of lack of liquidity. Term of office of the governor longer than the presidential |
| Central Bank of the Reserve of Peru. Source: http://www.bcrp.gob.pe/sobre-el-bcrp/papel-del-bcrp.html | 1922 | 1993 | BCRP Organic Law, No. 26123. Year 1993 | Independence of operation. Inflation control mandate. Prohibition of giving credit to the Government. Term of office of the governor longer than the presidential |
| Central Bank of Venezuela. Source: http://www.bcv.org.ve/c3/historia.asp | 1939 | 1999 | 2001 | Independence of operation. Inflation control mandate. Prohibition of giving credit to the Government. Term of office of the governor longer than the presidential |

The table above summarizes how these organizations have gone from state funders to entities with a clear mandate for consumer price stability.

The usual mechanism for maintaining price stability is the management of interest rates and precisely this management, together with the development of a more liberalized financial system has allowed an expansion of consumer credit, also giving a boost to domestic consumption.

Another interesting example is the implantation in several countries, and particularly in Argentina and Mexico, of independent budget offices or fiscal councils that are meant to provide analysis, control and transparency in budgetary matters.

The table below shows a list of the countries with these independent bodies in operation as well as their main functions.

| Entity | Year of found. | Key functions |
|---|---|---|
| **Mexico**<br><br>Centro de Estudios de las Finanzas Públicas (CEFP) | 1982 | Autonomous body within the Mexican Congress to provide analysis and evaluation of public finances. |
| **Colombia**<br><br>Consejo Fiscal y de Estabilidad Económica | 2011 | Independent body responsible for monitoring fiscal policy, evaluating fiscal sustainability, and proposing measures for fiscal stability |
| **Perú**<br><br>Consejo Fiscal | 2013 | Autonomous entity within the Ministry of Economy and Finance to assess fiscal policy and promote fiscal sustainability. |
| **Chile**<br><br>Consejo Fiscal Autónomo | 2016 | Independent entity to evaluate fiscal policy, monitor compliance with fiscal rules, and provide recommendations on budget matters |
| **Argentina**<br><br>Oficina Nacional de Presupuesto | 1998 | Advisory body within the Ministry of Economy to analyse public spending, monitor budget execution, and promote transparency. |
| **Brazil**<br><br>Conselho Nacional de Política Fazendária | 1971 | It is composed of federal and state finance ministers. Its primary focus is to coordinate |

| | | |
|---|---|---|
| | | fiscal policies among different government levels. |
| **Uruguay**<br><br>Oficina de Planeamiento y Presupuesto | 1973 | Advisory body to the President of Uruguay and assists in the formulation and execution of national policies, including budget planning and implementation |

As we can observe, some of those independent bodies were created a long time ago and have been gaining in independence along the years. Their objectives are in line with the existence of fiscal rules and the implementation of prudent policies.

Finally, let us mention within the set of policies that reinforce the institutional framework, the different initiatives for integration. Mercosur is the most advanced one, whose model is the European Union, the Andean Community or the Pacific Alliance are also relevant, and if only for Mexico, NAFTA was a critical vortex in its recent history. These processes have incentivised for its members the adoption of policies that have resulted in a reinforcement of the institutional network.

## 5.3 AT THE SOCIO-CULTURAL LEVEL

In our way scaling up the independent variables, we come now to analyse the socio-cultural level, to search for the underlying reasons that reinforces the transition to open access orders.

As we mentioned in section 5.2.2, the apparent contradiction between the resilient democracies of the region – where legislatures are not abruptly interrupted, and much less threatened by a regime change – and the receding nominal support for democracy in surveys like Latinobarómetro, can only be explained when we dig into the popular understandings of democracy. On average, people in Latin America are inclined to prioritize the intrinsic values of democracy, and that is reflected in the support that the Latinobarómetro shows for Churchillian democracy (pages 216-217).

Our theoretical framework leads us to investigate the adoption of emancipative values as the underlying reason behind this apparent contradiction. These are the values that allow for an internalization of authority and are a better predictor of the strength of democracy (page 45) and hence, an incentive to progress towards an open access order. Recent findings of the V-Dem Institute of Sweden, that we mentioned in section 2.4 show that liberal democracy – an open access order – only grows strong in the presence of emancipative values (Welzel & Kirsch, 2018; p. 31).

Hence, in our flowchart of dependent and independent variables, the expected outcome of the adoption of emancipative values is strengthening the observed trend of completion of legislatures and alternation in power, as well as helping in the implementation of policies that reinforce the institutional framework, which in the end are a sign of the depersonalization of power.

### 5.3.1 The World Values Survey and cultural maps

Since the early 1980s, a general survey on values – The World Values Survey – was put in place, "devoted to the scientific and academic study of social, political, economic, religious and cultural values of people in the world"[94]. The founder and first president of this research programme was Professor Ronald Inglehart, who has been profusely cited in this dissertation, and the immediate precedent for this survey was the European Values Study, that keeps still running.

The World Values Survey itself has already completed seven waves, the latest field work ranging from 2017 to 2020, it covers 120 countries, representing 95% of the world population[95], and is widely used by governments around the world, scholars, students, journalists, and international organizations such as the World Bank, World Health Organization (WHO), United Nations Development Program (UNDP) and the United Nations Headquarters in New York (USA). And, also, to

94 As described in the "Who we are" section of the World Values Survey webpage https://www.worldvaluessurvey.org/WVSContents.jsp Last visit April 1st, 2022
95 Not all countries were under the survey from the beginning. And this poses some difficulties, but for Latin America there is a good representation since wave 2.

elaborate democracy indexes as we have seen with the EIU Democracy Index. It contains hundreds of questions related to fields such as family, religion, education, corruption perception, authority, etc.

Social scientists are well aware of the difficulties of dealing with statistics referred to values, because the measures are always indirect, but fortunately, this is a well stablished survey, specifically focused on cultural values and the results are well parametrized. Moreover, professor Welzel has created indexes consistently tested in all waves, that will help us work on the shifts in authority relations and bargaining relations.

Our point is that, concurrently with the period of relative stability in Latin America, the societies are experiencing a shift in values that reinforce the transition to an open access order (or the permanence in that status, if that were the case).

Professor Welzel asserts that when material conditions improves, there is a "cognitive mobilization" that empowers people, which comprehends higher levels of education, information, physical mobility, and other experiences conducive to an enhancement of human knowledge (Welzel, 2021; p. 132). This is no other thing that the stock of knowledge that new institutional economics put behind the conformation of the institutional network (North, 2005; pp.48-64), and we have referred to them in this paper, following Welzel's terminology, as "emancipative values".

This is also coherent with the fact that according to professor Welzel, individuals have a natural quest for freedom, that hibernates under existential pressures, but awakes with widening existential opportunities (the old Maslow's psychological thrust applied at the sociological level), and that gives room to emancipative values.

This is first reflected in a set of cultural maps that members of the survey have displayed in the official web page of the survey, and that are very interesting to analyse following the time series.

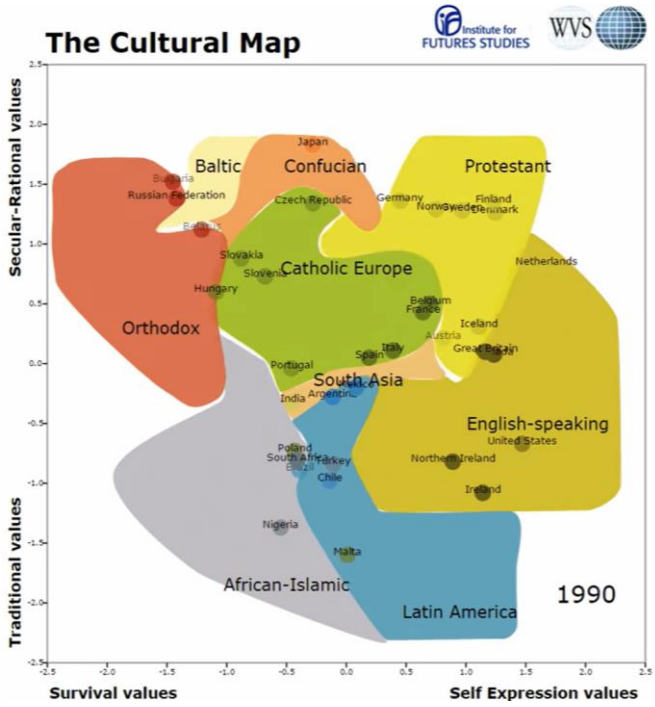


FIGURE 92 TAKEN FROM HTTPS://WWW.WORLDVALUESSURVEY.ORG/WVSCONTENTS.JSP

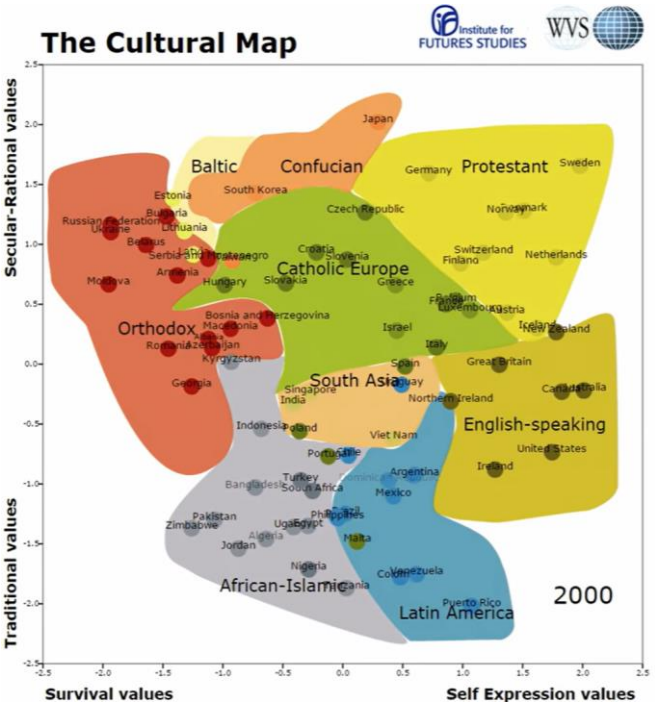


FIGURE 93 TAKEN FROM HTTPS://WWW.WORLDVALUESSURVEY.ORG/WVSCONTENTS.JSP

We are going to take the initial

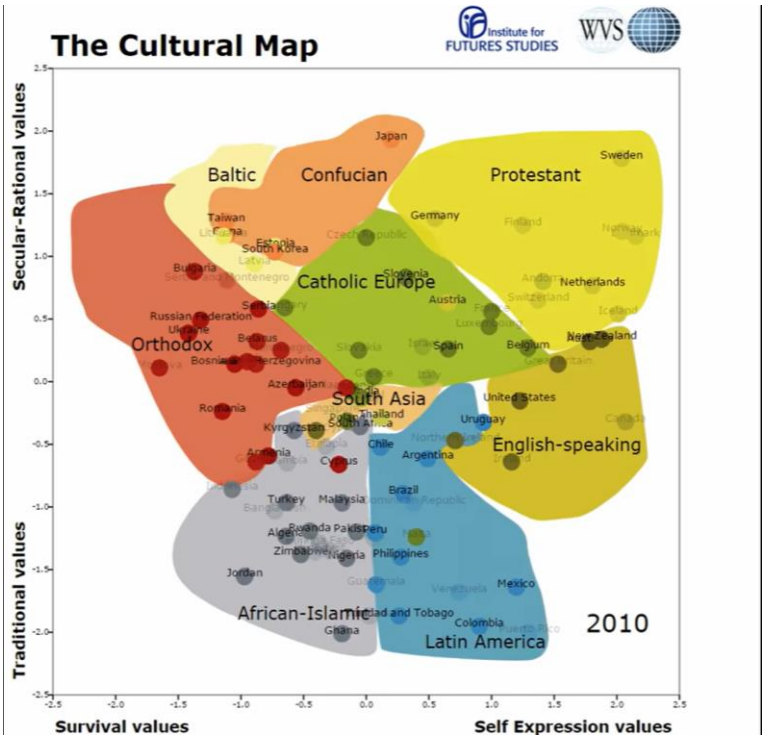


FIGURE 94 TAKEN FROM HTTPS://WWW.WORLDVALUESSURVEY.ORG/WVSCONTENTS.JSP

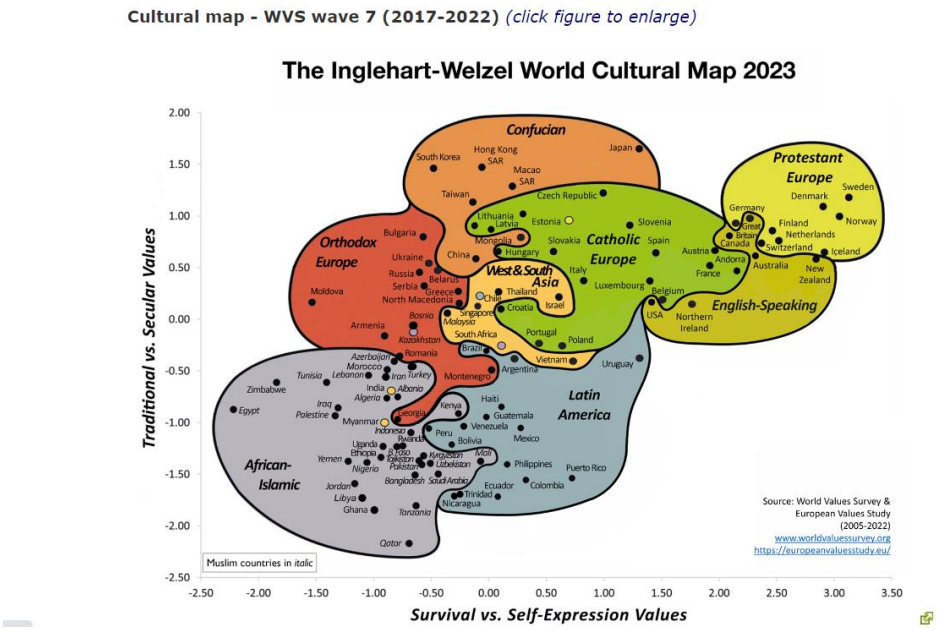


FIGURE 95 TAKEN FROM HTTPS://WWW.WORLDVALUESSURVEY.ORG/WVSCONTENTS.JSP

They have considered Latin America as a region, although countries that are part of the survey are shown individually. The region as a whole is moving upwards

and leftwards showing a shift toward secular and self-expression values, which are the pre-chamber for emancipative values.

### 5.3.2 Empirical evidence with the World Values Survey

But then, how can we extract those emancipative values from the immense set of data provided by the World Values Survey? Professor Welzel has created an index that responds to a composite logic and comprises twelve items distributed in four sub-indexes (Welzel, 2013; p. 131). These are items linked to questions of the survey that have consistently been asked in all waves since 1981

- Autonomy: measured by a) independence and (b) imagination as desirable child qualities but do not consider (c) obedience as such a quality.
- Choice: three items indicating how acceptable respondents find (a) divorce, (b) abortion, and (c) homosexuality.

These two domains address the liberating orientation of the index, that we described above

- Equality: three items indicating how strongly they disagree with the statements that (a) “education is more important for a boy than a girl,” (b) “when jobs are scarce, men should have priority over women to get a job,” and (c) “men make better political leaders than women.
- Voice: three items that indicate whether respondents assign first, second, or no priority to the goals of (a) “protecting freedom of speech,” (b) “giving people more say in important government decisions,” and (c) “giving people more say about how things are done at their jobs and in their communities.” This item is related to values that are critical in the definition of democracy, and therefore, its behaviour is particularly interesting for the purpose of this work.

Equality and Voice address more specifically to the egalitarian orientation of the index.

The theory has been repeatedly tested with powerful statistical tools, and the results seem to be positive (Welzel, 2014), (Dülmer et al., 2015), (Welzel, 2021b). The tests even consider backward estimations of emancipative values, taking into

account the cohort and generational spans of the evolution of these values, but our aim at this stage much simpler, even though to the best of my knowledge has not been done so far.

We will focus on four main countries in our region, for which we have data from wave 2 of the survey and see the evolution of the emancipative values index, by population segments. We will take the percentage of population in the mid-high range of the index, i.e., emancipative values index higher than 0.3. See chart 96.

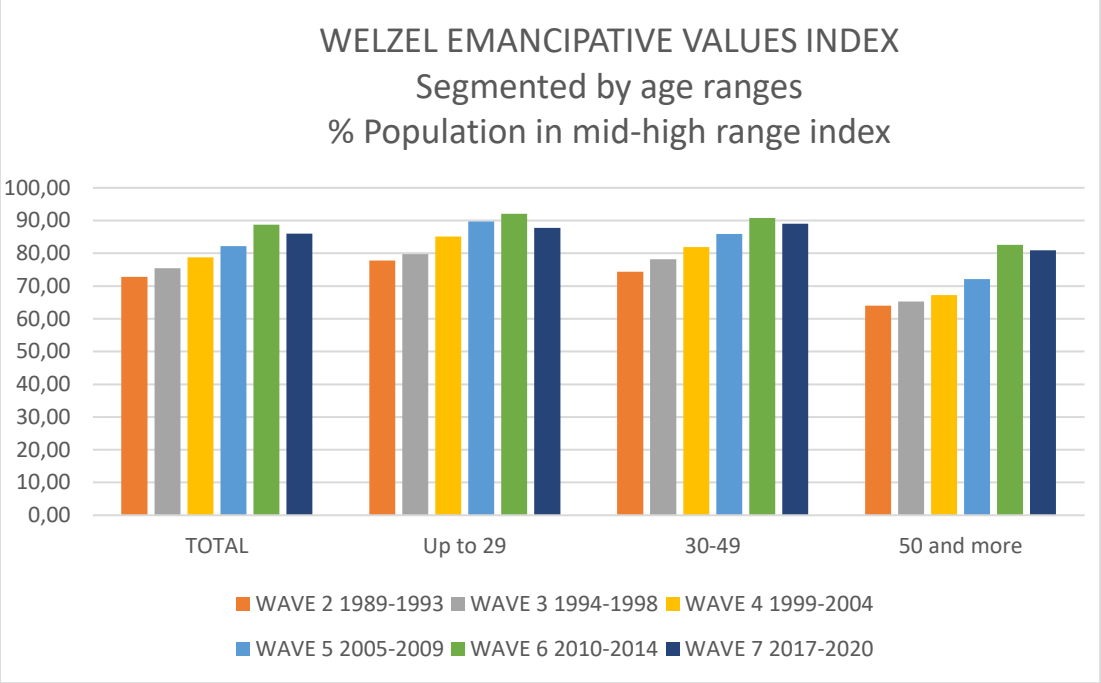


**CHART 96: AVERAGE FOR MEXICO, BRAZIL, CHILE AND ARGENTINA. SOURCE: OWN ELABORATION FROM WORLD VALUES SURVEY ONLINE ANALYSIS - EMANCIPATIVE VALUES INDEX RESEMAVAL**

We notice a positive trend, that is only broken in wave 7, following the current economic downturn that the region is experiencing (OECD et al., 2020), but the setback is very light, maintaining the value higher than wave 5. These results confirm, from our point of view, the postulates of modernization theory, that states that emancipative values lose impulse when material needs become more relevant for individuals. We also notice that the highest scores are for the youngest segment, but also the largest fall in wave 7, showing the vulnerability of this segment when facing an economic slowdown. It is a 14-point increase in 20 years for the total of the population. We see that the jump is steeper in the age

range above 50, reflecting the pervading character of these values from one generation to another. The younger cohorts ger older, but their quest for autonomy and independence form authority tends to remain.

If we take the mean value of the index (chart 97), instead of the percentage of population, as an element for comparison, we are driven to the same conclusions. The trend is positive, until wave 7, the youngest age segment has the highest scores, but also the largest drop in that wave, showing higher vulnerability of this age segment when facing an economic slowdown.

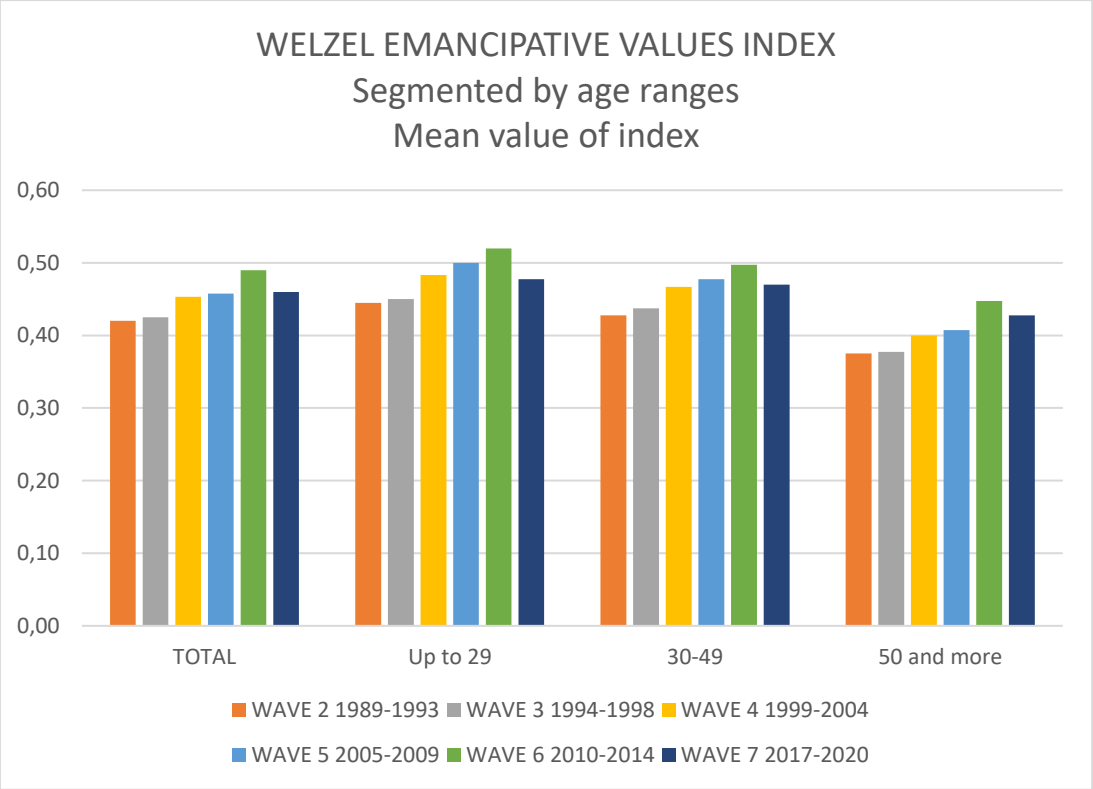


**CHART 97** AVERAGE FOR MEXICO, BRAZIL, CHILE AND ARGENTINA. SOURCE: OWN ELABORATION FROM WORLD VALUES SURVEY ONLINE ANALYSIS - EMANCIPATIVE VALUES INDEX RESEMAVAL

If we take the data for our countries of interest, we observe a similar pattern, although with some interesting peculiarities.

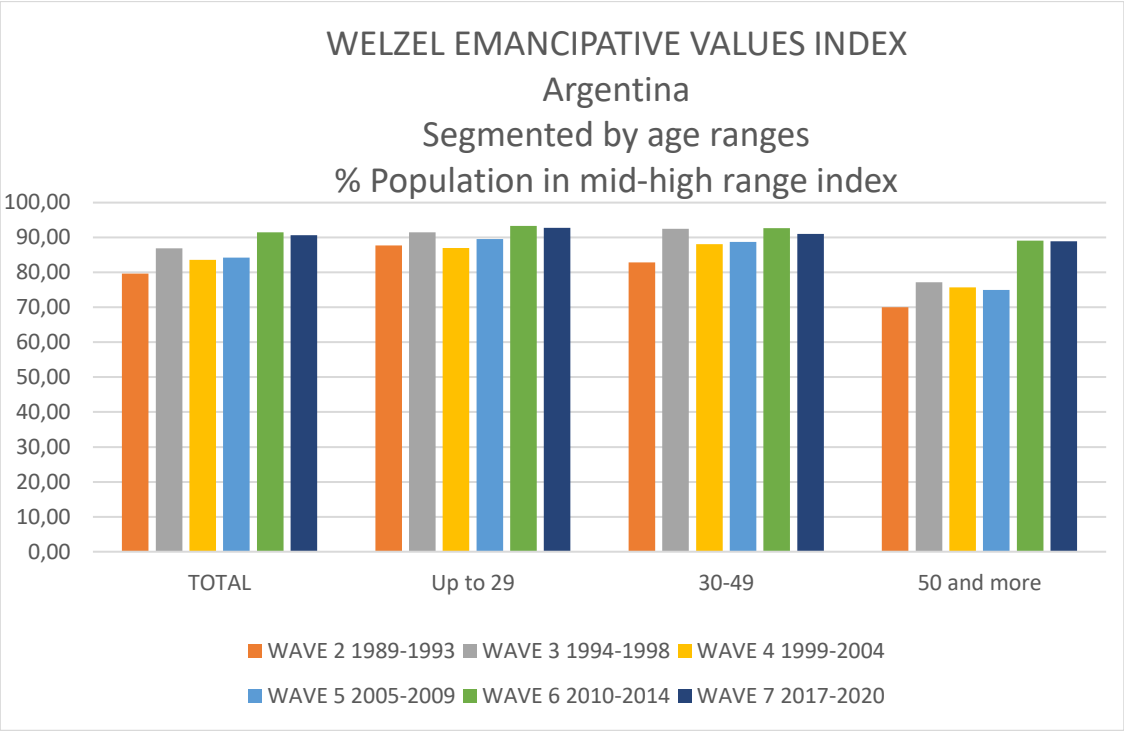


**CHART 98 SOURCE: OWN ELABORATION FROM WORLD VALUES SURVEY ONLINE ANALYSIS - EMANCIPATIVE VALUES INDEX RESEMAVAL**

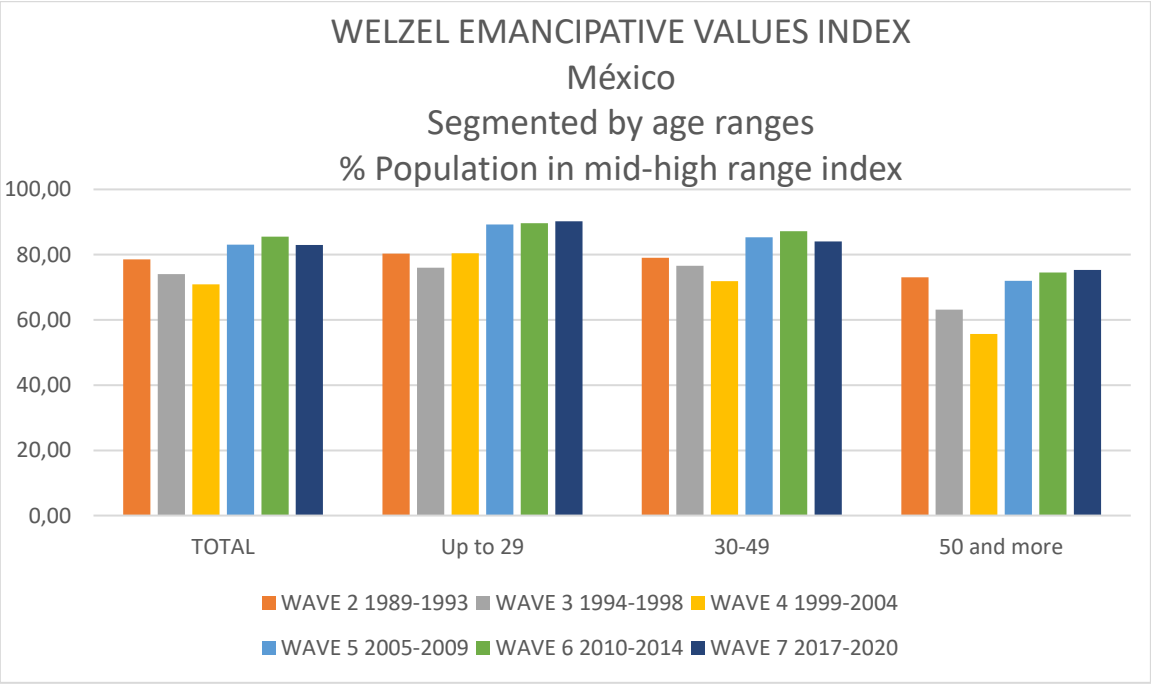


**CHART 99 SOURCE: OWN ELABORATION FROM WORLD VALUES SURVEY ONLINE ANALYSIS - EMANCIPATIVE VALUES INDEX RESEMAVAL**

In the case of Argentina, the fall in the latest wave is practically imperceptible, while for Mexico is more notorious, but nothing out of the range. For Mexico, the

differences between the different age segments are also more prominent, but in both cases, the trend since wave 4 (once both the debt crisis of 1982 and the effects of the Asian crisis of 1997 have passed away) is upwards in all age segments.

In all cases, we notice that younger cohorts are more prone to emancipative values, with higher index and percentage of population who embrace those values.

Let us compare these results with Spain or the UK to have a view of what has been happening in other regions.

In the case of Spain (Chart 100), we depart from a similar percentage of population in the mid-high range of emancipative values, but the progress is steeper. A jump of 20 points, which is again steeper in the age above 50 years old, reflecting the same case as in Latin America.

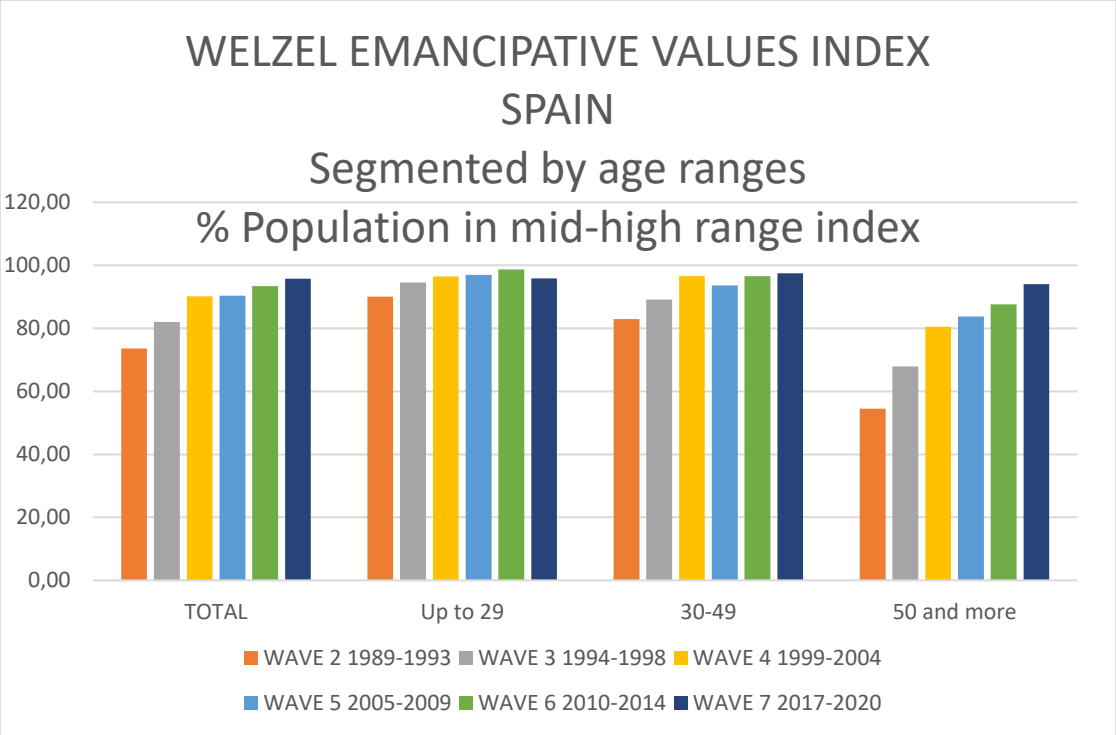


**CHART 100 SPAIN. SOURCE: OWN ELABORATION FROM WORLD VALUES SURVEY ONLINE ANALYSIS – EMANCIPATIVE VALUES INDEX RESEMAVAL**

Unfortunately for the UK (chart 101), data is scarcer, but it reflects a positive trend, although not so pronounced, because the country departs from a significantly higher percentage of the population at the turn of the century.

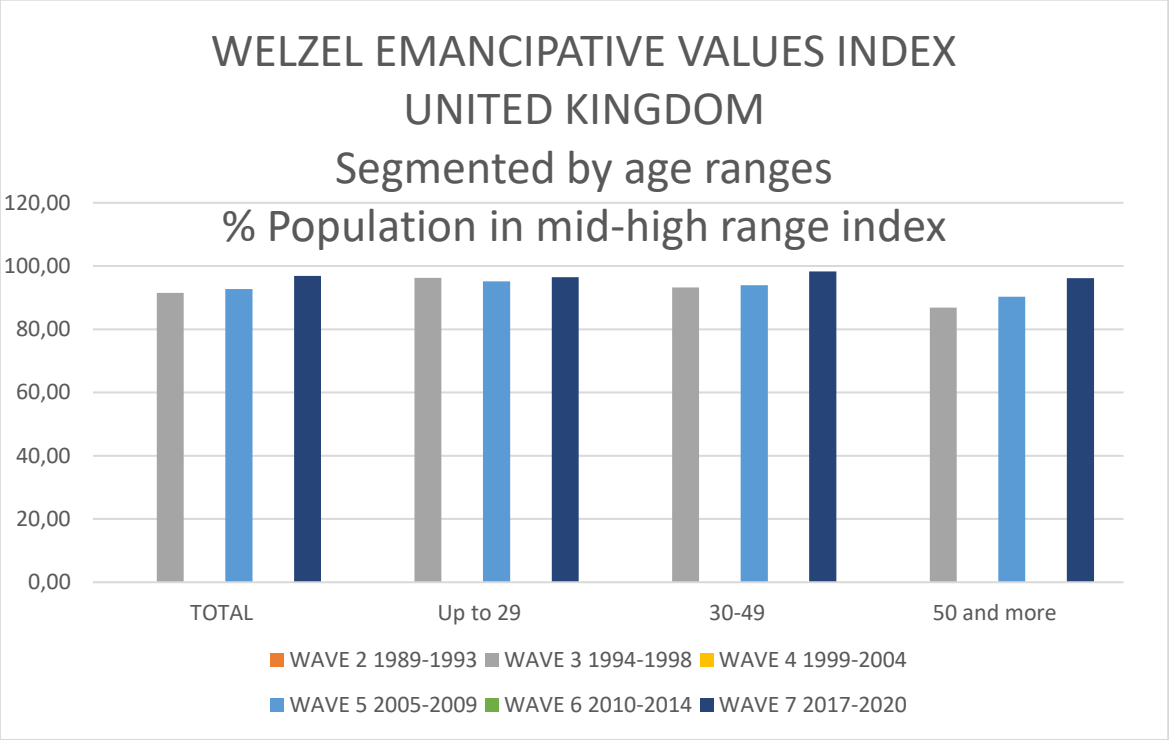


**CHART 101 UNITED KINGDOM. SOURCE: OWN ELABORATION FROM WORLD VALUES SURVEY ONLINE ANALYSIS - EMANCIPATIVE VALUES INDEX RESEMAVAL**

Further research with sub-indices and other parameters needs to be undertaken, but this simple test indicates that emancipative values tend to converge towards higher percentage of the population.

# VI. CONCLUSIONS

Our exploration of some of the most relevant events of recent Latin American history concludes here, leaving us desiring further insight. As it is often the case, when faced with a direct and complex question like the one heading this work, there are no simple answers, but it is time now to draw a few lines as a conclusion, although we must first acknowledge that this will rather be a quest for further advancing on the research.

We have taken the exceptional fact that the Great Financial Crisis of 2008 had mild effects in Latin America, to draw a reflection on the region and ask ourselves about the reasons behind this good performance.

In effect, the events of 2008 were extraordinary, both if we look at the performance of the region compared to previous crisis, and if we compare this performance with other regions in the world. The charts and figures that we showed in chapter IV speak by themselves, and the key factor here is that those good indicators, have persisted in time. We may argue that GDP growth has not been outstanding after 2015, but there is no crisis or recession at sight, and as we have seen, if we take a long span as ten years from 2008, the region has still experienced larger growth than high-income countries and, as chart 29 shows, the gap with most advanced economies has kept diminishing despite the weak growth after 2015.

The risk premium, capital inflows and outflows as well as foreign direct investment have been performing well during and after the crisis, and inflation has been also under control, except for the case of Venezuela, and more recently Argentina.

Especially persistent is the fact that inequality, even if at a slow pace, has kept decreasing at least until before the pandemic. Most important of all, a colossal mass of consumers have trespassed the line of poverty, and 120 million more people are now well into the middle-income or high-income strata, as we illustrated at the end of chapter IV. This is extremely important, for it has levelled

up the floor of household's consumption, allowing a softening of the picks and lows of aggregate demand.

We have set up what we believe is a novel framework, by explicitly combining modernization theory and new institutional economics, and we have stressed the complementarity of both theories.

- Modernization theory states that technological advances instigate changes and there is a natural quest for human being to pursue emancipation, and both things together induce shifts in cultural values towards emancipative values
- New institutional economics considers a set of institutional arrangements: political, property rights and social that interact between them and where formal and informal institutions are the rules of the game. The quest for emancipation is called here the process of opening access to political and economic resources in the social orders

The critical element that modernization theory overlooks is that the quest for emancipation takes place firstly within the elites, and once the elites have arrived at a consent among them and grant rights for them, i.e. a fair access to economic resources and political decision making, those rights are later extended to the rest of the layers in society. On the other end, new institutional economics consider beliefs (or values for that matter) as essential to consolidate the path for change, but it is only thanks to modernization theorists that surveys like the World Values Survey have been pursued and we have indexes available to assess a quantitative idea of its relevance.

Following the postulates of new institutional economics and modernization theory about personal/impersonal exchange and authority/bargaining relations, we have tried to approach the structural change in Latin America, defined as the process of transition from limited access orders to open access orders.

We have also modified the axis along which we are moving in. It is not democracy vs dictatorship, but open access orders vs limited access orders.

For this approach. We have very briefly outlined the origins of state formation and the adoption of the rule of law in Europe, because the institutional arrangements in Europe were the base for state formation in Latin America, and we have followed the classical division between bureaucratic and patrimonial states.

However, contrary to much of the literature on economic development, the transposition of these institutional arrangements to Latin America by itself cannot explain the economic development of the region. We live in a non-ergodic world. History is dynamic and it affects the evolution of institutional arrangements, and structural change as it were, and it is critical in this sense the arrangements and misarrangements among the elites of the new republics after independence, together with other factors like the economic structure, geography, the insert in the international trade dynamics or the international financial system.

Therefore, we have shifted the emphasis towards authority and bargaining relations, as well as personal and impersonal exchange to enhance the explanatory capacity of the theories and models.

We have underlined that in the region of our interest, further than extractive and inclusive institutions, there is a pervasiveness of authority relations and personal exchange that have overshadowed bargaining. Authority relations have conformed themselves as an informal institution, a rule of the game, difficult to overcome, as long as elites remained disunited, and unable to set a durable level playing field for their arrangements, except for Mexico, where the settlement that took place around 1928-1929 was long lasting, but incomplete, because it left out the business sector and it did not undertake a proper land reform.

This situation has kept asymmetries and transaction costs relatively high for most of the nineteenth and twentieth centuries, leading to economic inefficiencies and consequently stalling economic and political development, resulting in limited access orders, that we cannot even consider as mature until the last decade of the twentieth century.

That scenario only changed with the economic recovery of the first decade of the twenty first century, after the big crises of the 1980s and 1997, that brough about a generalisation of prudent economic policies, respect for the markets, liberalization of trade, and let us not forget, other actions, at the economic level,

the political level and the socio-cultural level, that expanded the so-called Washington Consensus to a more social-friendly policy stance, as we saw in section 5.2.2.

The extensive analysis of the independent variables addresses the question of commodity booms and shows a clear shift in the way politics and economic policy in particular, have been addressed in the region in the last two decades.

We have demonstrated that high prices of commodities cannot be the sole explanation for the good performance of the region. When we look at this in depth, and analysing terms of trade together with commodity prices, and not just the headlines in the news, we see that terms of trade were high, and particularly relatively high in the late 1970s and early 1980s (see chart 47) for Mexico and Argentina, and that did not avoid the so-called debt crisis from coming.

When you cross GDP growth vs commodity price indexes in the cases of Argentina and Mexico, the results are relevant, as we have shown in section 5.1.1 (charts 49 and 50) The correlation is not at all clear. Furthermore, the economic structure evolves. Argentina is a strong exporter of ICT services and Mexico is much more than textiles or other low value-added goods, as we saw in the atlas of economic complexity.

Prudent fiscal policies and fiscal rules have been in place in most countries. Even if they were not accomplished to their full extent, they are a reference and a guide. Fiscal rules may be suspended temporarily, as it is currently the case in the European Union, but they serve as a guide for responsible governments. The fiscal base has broadened, as we saw in section 5.1.2, even if there is still room for improvement, but most important of all, countercyclical policies were implemented for the first time in the region during and in the aftermath of the great financial crisis of 2008.

Social spending has opened the access of the lower layers of population to education and health, and social protection systems, again with room for improvement, has shifted towards public or parallel models, especially from 2008 onwards, also signalling an increase of employment in the formal sector.

Access to political decision-making has also improved. It is not only that elections are held on a regular basis, and they are substantially clean, but the military are under civilian control, contrary to what used to be the norm before 1990. If anything, in Mexico, a country where the military were out of power since the 1940s (the last general president was Manuel Ávila Camacho, just after Lázaro Cárdenas, and they both became presidents through electoral processes)[96], the military are expanding their influence in recent times, but not with the intention of taking over the executive power, but to lead the fight against the drug cartels.

Alternation in power is the norm now in the region, and even if legislatures are not completed, the mechanisms granted in the national constitutions operate overwhelmingly. Of course, there may be protests in the streets, riots, and abuses of power, but who is free from that sort of disruptions. We do not need to look out of Europe to see them. The key aspect is that those events are not resulting in a breakup of the fundamental institutions, and the rule of law applies to those who abuse power. There are several police and military officers accused of direct abuse against protesters. The system is far from flawless, but the improvement is impressive compared to what was common in the 1990s, when a self-coup was still possible in such a central country as Peru, and let us not forget that a few years later, president Fujimori was sent to jail precisely for abuse of power among other accusations, and he is not the only ex-president who has been under judicial investigation.

This smooth alternation of power indicates that the agreements among the elites are strong enough to ensure that the rules are not violated.

But as we said, access to political decision making has improved not only through the regular call of elections, but also in the sense that political elites, namely members of parliament, have also been of a broader origin. There has been an increase in congressmen and congresswomen who have an origin in social movements, namely 42% of MPs in Argentina and 30% of MPs in Mexico are non-party origin, as we saw in figure-table 89 (page 225). This has helped shift

96 To be more precise, President Ruíz Cortines, in the 1950s, also had a short military career during the Mexican Revolution, but he retired from the army in 1926, and he became president in 1952, so his military background did not influence so much his political success.

the political agenda in an institutionalised manner and not only with protests in the streets.

We must reckon, that this shift in the political culture of the region has come with a parallel shift in the popular understanding of democracy, as it is stated in the recent study by professors Lu and Chu, mentioned in section 5.2.2. In Latin America, according to this study, people are more inclined to prioritize the intrinsic values of democracy, which is coherent with the support in favour of Churchillian democracy bestowed in the Latinobarómetro (66% in the most recent report). An intrinsic understanding of democracy, as opposed to an instrumental conceptualization of it, connects very well with the idea that emancipative values are a better predictor of a democratic stance than just verbal support. It means that people are not so much willing to trade democratic principles for instrumental gains, and that strengthens open access to political decision making.

We believe that popular understandings of democracy are a very good complement to other measures in the form of indexes that are most often dependent on an assessment of legislation and experts' opinion, as it is the case of EIU index, Freedom House, V-Dem, etc. In the appendix of this dissertation, we cross the EIU index with a measure of open access orders, and the results are positive, although this attempt of measurement of open access can be improved, precisely considering these popular understandings of democracy or the emancipative values index.

We must also acknowledge, that the international context, dominated by the end of the cold war, was also a contributing factor to this strengthening of the democratic culture and institutionalization, and it has come together with different processes of regional integration in the continent.

An example of this institutionalization is the independence awarded to central banks in almost all countries, even though some may argue that the election of governors is not sufficiently democratic, or the creation in some countries of independent bodies for fiscal control. Again, even if these organisms are not functioning to its full extent, the qualitative jump from the early 1990s is outstanding.

Thanks to the latest version of modernization theory, we know that for bargaining relations to prosper, emancipative values need to come on top, and we have used the World Values Survey to verify that in effect, emancipative values are on the rise in the region, being the trend especially perceptible in the younger cohorts. Following our theoretical model, and despite the decline of verbal support to democracy, we believe that this gradual shift in values, which keeps 80% of the population in the mid and high range of the emancipative values index created by Professor Welzel, helps explain the resilience of the fundamental institutions in the region. It is not only the elites, but also the bulk of the population that are upholding rules of the game.

We do not want to be of Panglossian naivety. We do not by all means think that we live in the best of the possible worlds. The flaws in the system and challenges in the region remain enormous, and they come together with externalities, variations in the landscape, that do not always help in the progress toward an open access order. Setbacks and deviations on the process towards open access orders have occurred and will occur in the future, but this time, it is not different from what is being experienced in several countries in Europe or even in the US.

Undoubtedly, addressing corruption stands as a significant challenge in the region. While its prevalence remains widespread, it's important to acknowledge ongoing efforts towards prosecution, even at the highest echelons of power. The substantial count of twenty-two former presidents convicted of corruption across eight countries is noteworthy, and it is essential to consider those currently under prosecution, albeit not yet convicted[97]. Moreover, numerous programmes in the region aim to raise citizens' awareness about the detrimental impact of corruption in the region's development.

We can also mention that the speed of the implementation of policies is not the fastest possible and that there are setbacks and constraints in policy execution, but the trend is favourable for advancing towards an open access order, that grants basic rights to citizens. An indication of this is the shift in the migration pattern. While there is a stream of migrants who still want to reach the USA, there

97 The last report of Latinobarómetro contains a full list prosecutions and convictions https://latinobarometro.org/lat.jsp Last seen Nov 16th.

is also a trend of migrants returning home (from Europe or the USA) and the truth is that most of the migration remains in the region as a recent report by the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) states[98].

Violence is a critical factor that pervades too many countries in the region, especially violence stemming from drug trafficking, and particularly in Mexico, as we have mentioned in this work, and in Central America, although it is also penetrating in countries in South America, even in those that were calm a few years ago, like Ecuador. Drug cartels and related mafias are a major threat for progress towards open access in the region, and it is behind some of the most recent spurious events. In some cases, they constitute a sort of parallel state that weakens the formal state. The solution for this does not lie exclusively on the Latin American countries. This is a global phenomenon, where the consumers are mainly in one part of the world, and the producers are in another part, and the solution must convene both parts, or else there will be no solution at all. Suffice to say that those drug cartels are also present in Europe, albeit in a more subtle way.

Another aspect that is also challenging refers to the fact that the current steps that the region is taking towards open access are taking place in the midst of a technological revolution that is affecting the concept of open access order itself. This technological revolution is questioning the concept of liberal democracy and hence is setting the target of open access order as a moving target, which makes more difficult to attain.

Together with Professor Ocampo[99], we think that the shift towards an Information Technology ecosystem is occurring while the industrial sector in the region is generally weak, and the bulk of human capital is unprepared for the demands of information technologies. It seems that, akin to previous experiences with the international financial system, the region is integrating into a world for which its economic structure is not adequately prepared. There exists a steep learning curve that the region must navigate more swiftly than other global counterparts.

98 See https://reliefweb.int/report/world/dramatic-shift-americas-have-become-leading-migration-destination Last visit Sep 3rd 2023

99 I had the chance to discuss this with Professor José Antonio Ocampo at a virtual meeting within the programme of the Institute of Latin American Studies of Columbia University – Coffee Chat with ILAS – on March 10th, 2021. https://ilas.columbia.edu/events/coffee-chat-ilas-jose-antonio-ocampo

This challenge may hinder the region's ability to fully profit from the productivity gains facilitated by IT.

We must recall here that our analysis stops in 2019 and that beyond that point, pandemic in between, the evolution of Mexico and Argentina have been very different. Argentina abandoned the fiscal discipline and that brought back high inflation, which as we said in chapter IV, is the worst of illnesses for the economy. This is not the work to discuss those events, it is evident that political decisions significantly impact economic stability. When fundamental rules are disregarded, economic imbalances surface, often resulting in setbacks. Nevertheless, it is encouraging to observe the preservation of democratic principles, leaving the course of action in the hands of the people.

We see that there are reasons to be optimistic and serious challenges to address, but all in all, we believe that the region is much better positioned to grant their citizens a better access to economic resources and to political decision making.

The institutional change, in the sense that we have defined it, is taking place and the region is moving towards an open access order. We can recall here the words of Octavio Paz, when referring to the nascent republics after independence, he asserted that "[…] our people chose democracy because it seemed to them that it was the path to modernity, when the truth is the opposite: democracy is the result of modernity"[100] (Paz, 1983; p.107) to affirm now that unless catastrophic events occur, cultural values (the system of believes) are strongly anchored within the emancipative values segment and that will hold institutions resilient enough not to go back to the obscurity of a basic limited access order. Decidedly bargaining is overcoming authority when defining the relations in the region.

But as we said at the beginning, this is only the opening of a new research path for the study of economic and social development in the region. We can draft some steps forward for the future, like a better understanding of limited access orders, by analysing the legal framework and informal institutions for political participation, as well as the legal framework and informal institutions for economic participation, and more specifically for the incorporation of companies. A three-entry matrix defining the axis limited access-open access orders, together with

100 Own translation from Spanish

authority and bargaining relations as well as personal vs impersonal exchange should be helpful too.

After all, as Ronald Heiner once explained, it is only under uncertainty that institutions evolve (Heiner, 1983; p.573). We believe that the current prospect is promising, and it is worth the attempt to expand the research.

# CONCLUSIONES EN ESPAÑOL

Nuestra exploración de algunos de los acontecimientos más relevantes de la historia reciente de América Latina concluye aquí, dejándonos con el deseo de profundizar aún más en ellos. Como suele ocurrir, ante una pregunta directa y concreta como la que encabeza este trabajo, no hay respuestas sencillas, pero es hora ya de trazar algunas líneas a modo de conclusión, aunque debemos, ante todo, reconocer que ésta será más bien una búsqueda para seguir avanzando en la investigación.

Hemos aprovechado el hecho excepcional de que la Gran Crisis Financiera de 2008 tuvo efectos leves en América Latina, para hacer una reflexión sobre la región y preguntarnos por las razones de este buen comportamiento.

En efecto, los acontecimientos de 2008 fueron extraordinarios, tanto si observamos el desempeño de la región en comparación con crisis anteriores, como si comparamos este desempeño con otras regiones del mundo. Los gráficos y cifras que mostramos en el capítulo IV hablan por sí solos, y el factor clave aquí es que esos buenos indicadores, han persistido en el tiempo. Podemos argumentar que el crecimiento del PIB no ha sido sobresaliente después de 2015, pero no hay crisis o recesión a la vista, y como hemos visto, si tomamos un período de diez años a partir de 2008, la región todavía ha experimentado un mayor crecimiento que los países de altos ingresos y, como muestra el gráfico 25, la brecha con la mayoría de las economías avanzadas ha seguido disminuyendo a pesar del débil crecimiento después de 2015.

La prima de riesgo, las entradas y salidas de capital, así como la inversión extranjera directa, han tenido un buen comportamiento durante y después de la crisis, y la inflación también ha estado bajo control, salvo en el caso de Venezuela y, más recientemente, Argentina.

Especialmente persistente es el hecho de que la desigualdad, aunque a un ritmo lento, ha seguido disminuyendo al menos hasta antes de la pandemia. Lo más importante de todo es que una masa colosal de consumidores ha traspasado el umbral de la pobreza, y 120 millones de personas más se sitúan ahora en los

estratos de ingresos medios o altos, como ilustramos al final del capítulo IV. Esto es extremadamente importante, porque ha elevado el suelo del consumo de los hogares, permitiendo una suavización de los altibajos de la demanda agregada.

Hemos establecido lo que, creemos, es un marco novedoso, al combinar explícitamente la teoría de la modernización y la nueva economía institucional, y hemos subrayado la complementariedad de ambas teorías.

- La teoría de la modernización afirma que los avances tecnológicos instigan cambios y que existe una búsqueda natural de emancipación por parte del ser humano, y que ambas cosas juntas inducen cambios en los valores culturales hacia valores emancipadores.

- La nueva economía institucional considera un conjunto de ordenamientos institucionales: políticos, de derechos de propiedad y sociales que interactúan entre sí y donde las instituciones formales e informales son las reglas del juego. La búsqueda de la emancipación se denomina aquí al proceso de apertura del acceso a los recursos políticos y económicos en los órdenes sociales

El elemento crítico que la teoría de la modernización pasa por alto es que la búsqueda de la emancipación acontece en primer lugar entre las élites, y una vez que éstas han llegado a un acuerdo y se conceden derechos a sí mismas, es decir, un acceso justo a los recursos económicos y a la toma de decisiones políticas, esos derechos se extienden posteriormente al resto de capas de la sociedad. En el otro extremo, la nueva economía institucional considera que las creencias (o los valores en su caso) son esenciales para consolidar el camino hacia el cambio, pero sólo gracias a los teóricos de la modernización se han llevado a cabo encuestas como la Encuesta Mundial de Valores y disponemos de índices para hacernos una idea cuantitativa de su relevancia.

Siguiendo los postulados de la nueva economía institucional y la teoría de la modernización sobre el intercambio personal/impersonal y las relaciones de autoridad/negociación, hemos intentado aproximarnos al cambio estructural en

América Latina, definido como el proceso de transición de órdenes de acceso limitado a órdenes de acceso abierto.

También hemos modificado el eje por el que nos movemos. No se trata de democracia frente a dictadura, sino de órdenes de acceso abierto frente a órdenes de acceso limitado.

Para este enfoque. Hemos esbozado muy brevemente los orígenes de la formación del Estado y la adopción del Estado de Derecho en Europa, porque los acuerdos institucionales en Europa fueron la base para la formación del Estado en América Latina, y hemos seguido la división clásica entre Estados burocráticos y patrimoniales.

Sin embargo, contrariamente a gran parte de la literatura sobre desarrollo económico, la transposición de estos arreglos institucionales a América Latina por sí misma no puede explicar el desarrollo económico de la región. Vivimos en un mundo no ergódico. La historia es dinámica y afecta a la evolución de los arreglos institucionales y, por tanto, al cambio estructural. En este sentido, son críticos los arreglos y desarreglos entre las élites de las nuevas repúblicas tras la independencia, junto con otros factores como la estructura económica, la geografía, la inserción en la dinámica del comercio internacional o el sistema financiero internacional.

Por lo tanto, hemos desplazado el énfasis hacia las relaciones de autoridad y las relaciones de negociación, así como hacia el intercambio personal e impersonal para mejorar la capacidad explicativa de las teorías y los modelos.

Hemos subrayado que, en la región de nuestro interés, más allá de las instituciones extractivas e inclusivas, predominan las relaciones de autoridad y el intercambio personal que han eclipsado la negociación. Las relaciones de autoridad se han conformado como una institución informal, una regla del juego, difícil de superar, mientras las élites permanecieron desunidas, e incapaces de establecer una igualdad de condiciones duradera para sus acuerdos, excepto en el caso de México, donde el acuerdo que tuvo lugar hacia 1928-1929 fue duradero, pero incompleto, porque dejó fuera al sector empresarial y no emprendió una reforma agraria adecuada.

Esta situación ha mantenido las asimetrías y los costes de transacción relativamente altos durante la mayor parte de los siglos XIX y XX, lo que ha provocado ineficiencias económicas y, en consecuencia, un estancamiento del desarrollo económico y político, dando lugar a órdenes sociales de acceso limitado, que ni siquiera podemos considerar maduros hasta la última década del siglo XX.

Ese escenario sólo cambió con la recuperación económica de la primera década del siglo XXI, tras las grandes crisis de los años ochenta y 1997, que trajeron consigo una generalización de las políticas económicas prudentes, el respeto a los mercados, la liberalización del comercio y, no lo olvidemos, otras actuaciones, a nivel económico, a nivel político y a nivel sociocultural, que ampliaron el llamado Consenso de Washington hacia una postura política más favorable a la sociedad, como vimos en el apartado 5.2.2.

El extenso análisis de las variables independientes aborda la cuestión del auge de las materias primas y muestra un claro cambio en la forma de abordar la política y la política económica en particular en la región en las dos últimas décadas.

Hemos demostrado que los altos precios de las materias primas no pueden ser la única explicación de los buenos resultados de la región. Cuando analizamos esto en profundidad, y analizamos los términos de intercambio junto con los precios de las materias primas, y no sólo los titulares de las noticias, vemos que los términos de intercambio eran altos, y particularmente relativamente altos a finales de los 70 y principios de los 80 (ver gráfico 47) para México y Argentina, y eso no evitó que llegara la llamada crisis de la deuda.

Cuando se cruza el crecimiento del PIB con los índices de precios de las materias primas en los casos de Argentina y México, los resultados son relevantes, como hemos mostrado en la sección 5.1.1 (gráficos 49 y 50) La correlación no es nada clara. Además, la estructura económica evoluciona. Argentina es un fuerte exportador de servicios TIC y México es mucho más que exportación de textiles y otros bienes de bajo valor añadido, como vimos en el atlas de complejidad económica.

En la mayoría de los países se han aplicado políticas prudentes y normas fiscales. Aunque no se hayan cumplido en toda su extensión, son una referencia y una guía. Las reglas fiscales pueden suspenderse temporalmente, como ocurre actualmente en la Unión Europea, pero sirven de guía a los gobiernos responsables. La base fiscal se ha ampliado, como vimos en la sección 5.1.2, aunque todavía hay margen de mejora, pero lo más importante de todo es que las políticas anticíclicas se aplicaron por primera vez en la región durante y después de la gran crisis financiera de 2008.

El gasto social ha abierto el acceso de las capas más bajas de la población a la educación y la sanidad, y los sistemas de protección social, de nuevo con margen de mejora, han virado hacia modelos públicos o paralelos, sobre todo a partir de 2008, lo que indica también un aumento del empleo en el sector formal.

El acceso a la toma de decisiones políticas también ha mejorado. No es sólo que las elecciones se celebren con regularidad y sean sustancialmente limpias, sino que los militares están bajo control civil, contrariamente a lo que solía ser la norma antes de 1990. Si acaso, en México, un país donde los militares están fuera del poder desde los años 40 (el último presidente general fue Manuel Ávila Camacho, justo después de Lázaro Cárdenas, y ambos llegaron a la presidencia mediante procesos electorales)[101], los militares están ampliando su influencia en los últimos tiempos, pero no con la intención de hacerse con el poder ejecutivo, sino para liderar la lucha contra los cárteles de la droga.

La alternancia en el poder es ya la norma en la región, e incluso si no se completan las legislaturas, los mecanismos previstos en las constituciones nacionales funcionan con regularidad. Por supuesto, puede haber protestas en las calles, disturbios y abusos de poder, pero ¿quién está libre de ese tipo de perturbaciones? No hace falta mirar fuera de Europa para verlos. El aspecto clave es que esos acontecimientos no están dando lugar a una ruptura de las instituciones fundamentales, y el Estado de Derecho se aplica a quienes abusan del poder. Hoy en día, es corriente ver a policías y militares acusados de abusos

101 Para ser más precisos, el presidente Ruíz Cortines, en la década de 1950, también tuvo una corta carrera militar durante la Revolución Mexicana, pero se retiró del ejército en 1926, y llegó a la presidencia en 1952, por lo que sus antecedentes militares no tuvieron prácticamente influencia en su devenir político.

directos contra manifestantes. El sistema está lejos de ser impecable, pero la mejora es impresionante comparada con lo que era habitual en los años 90, cuando un autogolpe era todavía posible en un país tan central como Perú, y no olvidemos que pocos años después, el presidente Fujimori fue enviado a la cárcel precisamente por abuso de poder entre otras acusaciones, y no es el único expresidente que ha estado bajo investigación judicial.

Esta alternancia fluida de poder indica que los acuerdos entre las élites son lo suficientemente fuertes como para garantizar que no se violen las reglas.

Pero como dijimos, el acceso a la toma de decisiones políticas ha mejorado no sólo a través de la convocatoria regular de elecciones, sino también en el sentido de que las élites políticas, es decir los parlamentarios, tienen también un origen más amplio. Ha habido un aumento de diputados y diputadas que tienen un origen en movimientos sociales, concretamente el 42% de los diputados en Argentina y el 30% de los diputados en México eran de origen no partidista, como vimos en el cuadro 89. Esto ha ayudado a cambiar la agenda política por la vía institucional, y no sólo con protestas en las calles.

Hay que contar con que este cambio en la cultura política de la región ha venido acompañado de un cambio paralelo en la comprensión popular de la democracia, tal y como se recoge en el reciente estudio de los profesores Lu y Chu, mencionado en el apartado 5.2.2. En América Latina, según este estudio, la gente se inclina más por dar prioridad a los valores intrínsecos de la democracia, lo que es coherente con el apoyo a favor de la democracia churchilliana otorgado en el Latinobarómetro (66% en el informe más reciente). Una comprensión intrínseca de la democracia, frente a una conceptualización instrumental de la misma, conecta muy bien con la idea de que los valores emancipadores son un mejor predictor de una postura democrática que el mero apoyo verbal. Significa que la gente no está tan dispuesta a cambiar los principios democráticos por beneficios instrumentales, y eso refuerza el acceso abierto a la toma de decisiones políticas.

Creemos que las concepciones populares de la democracia son un muy buen complemento de otras medidas en forma de índices que suelen depender de una evaluación de la legislación y de la opinión de los expertos, como es el caso del

índice EIU, Freedom House, V-Dem, etc. En el apéndice de esta disertación, cruzamos el índice EIU con una medida de órdenes de acceso abierto, y los resultados son positivos, aunque este intento de medición del acceso abierto puede mejorarse, precisamente teniendo en cuenta estas concepciones populares de la democracia o el índice de valores emancipadores.

También hay que reconocer, que el contexto internacional, dominado por el fin de la guerra fría, ha sido también un factor que ha contribuido a este fortalecimiento de la cultura democrática y de la institucionalización, y que ha venido de la mano de diferentes procesos de integración regional en el continente.

Un ejemplo de esta institucionalización es la independencia concedida a los bancos centrales en casi todos los países, aunque algunos puedan argumentar que la elección de los gobernadores no es suficientemente democrática, o la creación en algunos países de organismos independientes para el control fiscal. De nuevo, aunque estos organismos no funcionen en toda su extensión, el salto cualitativo desde principios de los noventa es sobresaliente.

Gracias a la última versión de la teoría de la modernización, sabemos que para que las relaciones de negociación prosperen, los valores emancipadores tienen que estar por encima, y hemos utilizado la Encuesta Mundial de Valores para comprobar que, en efecto, los valores emancipadores están en alza en la región, siendo la tendencia especialmente perceptible en las cohortes más jóvenes. Siguiendo nuestro modelo teórico, y a pesar del descenso del apoyo verbal a la democracia, creemos que este cambio gradual de valores, que mantiene al 80% de la población en el rango medio y alto del índice de valores emancipadores creado por el profesor Welzel, ayuda a explicar la resistencia de las instituciones fundamentales en la región. No son sólo las élites, sino también el grueso de la población las que defienden las reglas del juego.

No queremos ser de una ingenuidad panglosiana. No pensamos, ni mucho menos, que vivimos en el mejor de los mundos posibles. Los fallos del sistema y los retos de la región siguen siendo enormes, y se unen a externalidades, variaciones en el paisaje, que no siempre ayudan a avanzar hacia un orden de acceso abierto. Se han producido y se producirán en el futuro retrocesos y

desviaciones en el proceso hacia órdenes de acceso abierto, pero esta vez no son diferentes de lo que se está viviendo en varios países de Europa o incluso de Estados Unidos.

No cabe duda de que la lucha contra la corrupción es un reto importante en la región. Aunque su prevalencia sigue siendo generalizada, es importante reconocer los esfuerzos que se están realizando para perseguirla, incluso en las más altas esferas del poder. Cabe destacar el importante recuento de veintidós expresidentes condenados por corrupción en ocho países, y es esencial tener en cuenta a los que actualmente están siendo procesados, aunque aún no hayan sido condenados[102]. Además, numerosos programas en la región pretenden concienciar a los ciudadanos sobre el impacto perjudicial de la corrupción en el desarrollo de la región.

También podemos mencionar que la velocidad de aplicación de las políticas no es la más rápida posible y que existen contratiempos y limitaciones en la ejecución de las políticas, pero la tendencia es favorable para avanzar hacia un orden de acceso abierto, que otorgue derechos básicos a los ciudadanos. Una muestra de ello es el cambio en el patrón migratorio. Si bien hay una corriente de migrantes que siguen queriendo llegar a EE.UU., también hay una tendencia de migrantes que regresan a casa (desde Europa o EE.UU.) y lo cierto es que la mayor parte de la migración se queda en la región, como señala un reciente informe de la Oficina de Coordinación de Asuntos Humanitarios de las Naciones Unidas (OCHA)[103].

La violencia es un factor crítico que invade demasiados países de la región, especialmente la violencia derivada del narcotráfico, y particularmente en México, como hemos mencionado en este trabajo, y en Centroamérica, aunque también está penetrando en países de Sudamérica, incluso en aquellos que hace unos años eran ajemos a este fenómeno, como Ecuador. Los *cárteles* de la droga y las mafias relacionadas con ellos son una gran amenaza para el progreso hacia el acceso abierto en la región, y está detrás de algunos de los

102 El último informe de Latinobarómetro contiene una lista completa de procesamientos y condenas https://latinobarometro.org/lat.jsp Última visita 16 de noviembre de 2023
103 Ver https://reliefweb.int/report/world/dramatic-shift-americas-have-become-leading-migration-destination Última visita 3 de septiembre de 2023

acontecimientos espurios más recientes. En algunos casos, constituyen una especie de Estado paralelo que debilita al Estado formal. La solución no reside exclusivamente en los países latinoamericanos. Se trata de un fenómeno global, donde los consumidores están principalmente en una parte del mundo, y los productores en otra, y la solución debe convocar a ambas partes, o no habrá solución alguna. Baste decir que esos *cárteles* de la droga también están presentes en Europa, aunque de forma más sutil.

Otro aspecto que también supone un reto se refiere al hecho de que los actuales pasos que la región está dando hacia el acceso abierto se están produciendo en medio de una revolución tecnológica que está afectando al propio concepto de orden de acceso abierto. Esta revolución tecnológica está cuestionando el concepto de democracia liberal y, por lo tanto, está convirtiendo el objetivo del orden de acceso abierto en un objetivo móvil, lo que hace más difícil alcanzarlo.

Junto con el profesor Ocampo[104], pensamos que el cambio hacia un ecosistema de tecnologías de la información se está produciendo mientras el sector industrial de la región es, en general, débil, y el grueso del capital humano no está preparado para las exigencias de las tecnologías de la información. Parece que, al igual que en experiencias anteriores con el sistema financiero internacional, la región se está integrando en un mundo para el que su estructura económica no está adecuadamente preparada. Existe una pronunciada curva de aprendizaje que la región debe recorrer más rápidamente que otros homólogos mundiales. Este reto puede obstaculizar la capacidad de la región para beneficiarse plenamente de los aumentos de productividad facilitados por las tecnologías de la información.

Debemos recordar aquí que nuestro análisis se detiene en 2019 y que más allá de ese punto, pandemia de por medio, la evolución de México y Argentina han sido muy diferentes. Argentina abandonó la disciplina fiscal y eso trajo de vuelta una alta inflación, que como dijimos en el capítulo IV, es la peor de las enfermedades para la economía. No es este el trabajo para discutir esos

104 Tuve la oportunidad de hablar de ello con el profesor José Antonio Ocampo en un encuentro virtual en el marco del programa del Instituto de Estudios Latinoamericanos de la Universidad de Columbia – Coffe chat with ILAS – el 10 de marzo de 2021 https://ilas.columbia.edu/events/coffee-chat-ilas-jose-antonio-ocampo

acontecimientos. Es evidente que las decisiones políticas impactan significativamente en la estabilidad económica. Cuando no se respetan las reglas fundamentales, afloran los desequilibrios económicos, que a menudo provocan retrocesos. Sin embargo, es alentador observar la preservación de los principios democráticos, dejando el curso de la acción en manos del pueblo.

Vemos que hay razones para ser optimistas y serios retos que abordar, pero, en conjunto, creemos que la región está mucho mejor posicionada para garantizar a sus ciudadanos un mejor acceso a los recursos económicos y a la toma de decisiones políticas. El cambio institucional, en el sentido en que lo hemos definido, se está produciendo y la región avanza hacia un orden de acceso abierto. Podemos recordar aquí las palabras de Octavio Paz, cuando refiriéndose a las nacientes repúblicas después de la independencia, afirmaba que "[...] nuestros pueblos eligieron la democracia porque les pareció que era la vía hacia la modernidad. La verdad es lo contrario: la democracia es el resultado de la modernidad, no el camino hacia ella." (Paz, 1983; p.107) afirmar ahora que, a menos que ocurran acontecimientos catastróficos, los valores culturales (el sistema de creencias) están fuertemente anclados en el segmento de los valores emancipadores y eso mantendrá a las instituciones lo suficientemente resistentes como para no volver a la oscuridad de un orden básico de acceso limitado. Decididamente, la negociación está superando a la autoridad a la hora de definir las relaciones en la región.

Pero como decíamos al principio, esto no es más que la apertura de una nueva vía de investigación para el estudio del desarrollo económico y social en la región. Podemos esbozar algunos pasos para el futuro, como una mejor comprensión de los órdenes de acceso limitado, analizando el marco jurídico y las instituciones informales para la participación política, así como el marco jurídico y las instituciones informales para la participación económica, y más concretamente para la constitución de empresas. También sería útil disponer de una matriz de tres entradas que definiera el eje acceso limitado-órdenes de acceso abierto, junto con las relaciones de autoridad y negociación, así como el intercambio personal frente al impersonal.

Al fin y al cabo, como explicó Ronald Heiner en una ocasión, las instituciones sólo evolucionan en la incertidumbre (Heiner, 1983; p.573). Creemos que la perspectiva actual es prometedora, y merece la pena intentar ampliar la investigación.

# APPENDIX - QUALITY OF SOCIAL ORDERS

Until not so long ago, studies on democracy in Latin America focused on analysis of the transitions and consolidations of democracies, while today, we take that stage to be over, and the academic focus is on making a comparative and reliable assessment of the quality of democracy (Levine and Molina, 2007: 18). This does not mean that democracies in Latin America are free from problems, but that they are of the same nature that we observe in what we consider consolidated democracies in Europe or North America. The object of study has radically changed from what weas studied in the last quarter of the twentieth century.

Furthermore, our stance all along this dissertation has been to avoid the axis dictatorship-democracy and work on the axis limited access orders-open access orders, for the reasons that we explained in in chapter one, i.e., democracy is a sort of catch-all concept, that depending on the author may be the cause or the consequence of economic development, and all regimes claim to be democracies, whether popular democracies (as China claims to be) or liberal democracies, and among the last ones there are full democracies, flawed democracies, hybrid systems and varieties in between.

We respect the concept of democracy very much, and it is certainly a reference to be used, but for the purpose of our work we prefer to put the focus on limited access and open access orders. We have defined these concepts in section “Theoretical framework” but let us just remember that limited access orders those where only a handful of individuals have access to both economic resources and political decision making. “The limited access order builds on personal relationships and repeated interaction: a hierarchy of personal relationships among powerful individuals at the top of the social order” (North et al., 2009; p.32). This is what Professors Inglehart and Welzel would call a network of authority relations that overshadows bargaining.

Following the postulates of new institutional economics, the conditions for an open access order to be sustained, that is to say, for a social order to grant access

to all citizens to political resources and to economic resources, and that can be characterized as

- a Weberian society in the sense that the government has a monopoly on the legitimate use of violence, and particularly, the military are subject to the civilian control.
- An order able to balance political stability (a succession of legislatures and separation of powers), with open access to economic resources.
- This open access to resources is complemented with open access to a set of social benefits.
- While respecting that economic organizations do not need to participate in politics to maintain their rights,
- and this is held by a shared belief among citizens that emphasize equality and universal inclusion,
- Which is reinforced by impersonality, i.e., the rule of law is a constant, and bargaining relations prevail over authority relations

And the preconditions for a society to become an open access order start with the different elites (military, religious, political, economic) reaching a basic agreement that deters them from factions, and hence, the *doorstep conditions* for a transition to an open access order are (North et al., 2013)

1. The elites establish the rule of law for themselves, granting rights and norms that allow for their disputes to be resolved peacefully
2. A control of the military by the state, so that no faction of the elites can make an illegitimate use of violence
3. Perpetually living organizations must be in place, whose existence is independent of a particular individual (or a particular group of individuals), that is to say, depersonalization of power
4. And as we said, factions should be laminated, in the sense that a basic agreement is reached to avoid warring between factions

These preconditions basically entail an open access order for the elites, but at some point, when these preconditions have been in place for a sufficient time, and a society (a country for that matter) can be considered still limited, but mature enough (i.e. a mature limited access order), the elites may find it useful to extent

the benefits of open access to the non-elite, partly to protect themselves from a potential rebellion of the non-elite, and partly because this extension will procure a larger wealth to be shared among the elite, and eventually, once the material conditions allow for a middle class to be relevant and not so vulnerable, benefit will also be shared among the non-elite. This economic view of the process correlates with the political view, stated by modernization theory, but applied first to the elites, and hence, in a non-linear process, conditioned by the surging of bargaining relations, as opposed to authority relations, and subject to setbacks, either through elite settlement or elite convergence, as we have seen in our theoretical framework, a transition to an open access is attained.

Let us stress the point that by adding new institutional economics to modernization theory, we can better explain how transitions take place. Modernization theory, as per its latest developments, states that individuals have a natural quest for freedom, that hibernates under existential pressures, but awakes with widening existential opportunities (the old Maslow's psychological thrust applied at the sociological level), and that gives room to emancipative values, but the theory says practically nothing about the elites, and it does not consider the functioning of organizations. This is where new institutional economics comes in. The quest for emancipation takes place first within the elites, for the simple reason, we reckon, that they have less existential pressures than the rest of the society, and hence, the transition starts at their level. The rule of law, control of violence (disputes among elites are no longer resolved by warring), and depersonalization of power take place among the elites, and bargaining relationships become preponderant among the elites, before spreading to the rest of the layers in society.

We must insist once again that the transition to an open access order is necessarily very slow and subject to setbacks. The most common status for social orders is the natural state in its different forms (fragile, basic, and mature), and even when they are mature, they can remain like that for decades. The case of

France is very significant, for it remained as a mature limited access order since around 1851 until the end of World War II[105] (North et al., 2009; pp. 219-227).

When the Spanish elite settlement in 1977-1978 is put as an example of a quick transition (Gunther, 1992), analysts sometimes forget that Spanish constitutional history is very long, since the first constitution of 1808, and that pacts among the elites have been in place, especially since the *turno pacífico* pact of 1876, when we can fix the establishment of a mature limited access order[106], that would return to a basic one in 1923 with the dictatorship of Primo de Rivera and would not be mature again until Franco's death (with the only parenthesis of the Second Republic). In effect, the transition to an open access was notably quick after that, with material conditions for the population at a comparable level with OECD countries[107], and hence, a relatively large middle class fearful of losing their status, elites determined to dodge a new violent conflict (among other things to avoid losing those material conditions) and in an international context that favoured the transition.

We have seen in section 5.2.3 how access to economic resources were granted in our countries of interest but let us insist on elite convergence.

Both in France and in Spain alliances within the elites were not strong enough to hold factions together and ensure political stability. As we have discussed above, the patrimonial state promoted by the Crown (in both countries) until well advanced the eighteenth-century pervaded with authority relations and competition for offices and charters political decision making. Suffice to say that France had 60 governments between 1871 and 1914, and that especially in

105 North et al set the transition earlier, but we do not think that an open access order should be considered as such without full universal suffrage, which in the case of France was attained in 1944.
106 This pact was based on a constitution promulgated in June 1876, and at the time of writing this dissertation, this is the constitution that has been in force for the longest time in the history of Spain. The pact brought political stability, but it was flawed with rigged elections and clientelism (*caciquismo*), even after male universal suffrage was passed. For further explanation see a recent article by Professor Moreno Luzón https://www.nuevarevista.net/el-turno-pacifico-un-pacto-ambivalente/ Last access Sep 3rd, 2023.
107 Spain was a member of OECD since its foundation in 1961 and according to OECD data, Spanish GDP per capita was 60% of the average of OCDE in 1975, at the level of Italy https://www.oecd.org/about/members-and-partners/

Spain, the military were not at all under civilian control, and they were central for the support of the different governments.

In our region of interest, elites were also essentially disunited all along the nineteenth century and further into the twentieth century (North et al., 2009) (Centeno & Ferraro, 2013b) (Foweraker, 2021). The processes of independence brought about political constitutions everywhere, inspired by the American and British constitutions, but most of them of a very short survival rate (Colley, 2021; p. 240), signalling the persistent disunion among the elites all along the nineteenth century. Under these conditions, it is clear that we can only speak of limited access orders in the region for the whole of the nineteenth century and most of the twentieth century, and never mature, but only fragile or basic. The transition towards an open order could only begin to be glimpsed at the end of the twentieth century. The problem arises when trying to measure the quality of a social order and determine when an open access order is in place.

## A measure of social orders

There is, certainly, an array of indexes to classify democracies, but this is not the case for social orders, and probably the difficulties to measure social orders, is one of the reasons why since the seminal works of Professors North, Wallis, and Weingast in 2009 and 2013, that we have repeatedly cited in this dissertation, open access and limited access orders have not been so popular among scholars.

Amid this array of indexes that measure democracies, we favour, as a good approach to a measure of open access, the Economist Intelligence Unit EIU Democracy Index, for it covers practically all countries in the world[108] and it uses a set of sixty indicators classified in five categories, namely, *electoral process and pluralism*, *civil liberties*, *the functioning of government*, *political participation*, and *political culture*. The sources for each of the sixty indicators are experts' assessments, as well as, and this is important, public opinion surveys as the

108 It covers 165 independent states. It only excludes microstates as Monaco or Andorra or failed states like Somalia. See https://www.eiu.com/n/campaigns/democracy-index-2020/ Last visit May 23rd, 2023

World Values Survey or the Latinobarómetro, that are predominant in *political participation* and *political culture* categories (The Economist, 2021; p.58). This is convenient for our work, since those opinion polls have been largely used all along this dissertation, and among the indicators, there are many of them that are focused on free access to political and economic resources, as well as about the civilian control of the military (for example indicators n. 4, n. 9, n. 11, n. 12, n. 16, n. 49)[109]. The problem with this index is that it only started in 2006, which is too short for our purposes. Figure-Table 85 below shows the scores for this index for some selected years.

EIU Democracy Index 2006 - 2010 - 2015 - 2020
Latin America

| | 2020 | 2015 | 2010 | 2006 |
|---|---|---|---|---|
| Argentina | 6,95 | 7,02 | 6,84 | 6,63 |
| Bolivia | 5,08 | 5,75 | 5,92 | 5,98 |
| Brazil | 6,92 | 6,96 | 7,12 | 7,38 |
| Chile | 8,28 | 7,84 | 7,67 | 7,89 |
| Colombia | 7,04 | 6,62 | 6,55 | 6,40 |
| Costa Rica | 8,16 | 7,96 | 8,04 | 8,04 |
| Dominican Rep. | 6,32 | 6,67 | 6,20 | 6,13 |
| Ecuador | 6,13 | 5,87 | 5,77 | 5,64 |
| El Salvador | 5,90 | 6,64 | 6,47 | 6,22 |
| Guatemala | 4,97 | 5,92 | 6,05 | 6,07 |
| Honduras | 5,36 | 5,84 | 5,76 | 6,25 |
| Mexico | 6,07 | 6,55 | 6,93 | 6,67 |
| Nicaragua | 3,60 | 5,26 | 5,73 | 5,68 |
| Panama | 7,18 | 7,19 | 7,15 | 7,35 |
| Paraguay | 6,18 | 6,33 | 6,40 | 6,16 |
| Peru | 6,53 | 6,58 | 6,40 | 6,11 |
| Uruguay | 8,61 | 8,17 | 8,10 | 7,96 |
| Venezuela | 2,76 | 5,00 | 5,18 | 5,42 |
| Average | 6,22 | 6,57 | 6,57 | 6,55 |

**FIGURE 102 SOURCE: OWN ELABORATION FROM EIU DEMOCRACY INDEX**

Another index that also approaches to a measure of an open access order the Bertelsmann Stiftung Transformation Index (BTI), which evaluates for developing countries how they are "steering social change toward democracy and market

109 See EIU report for the full list of indicators

economy"[110]. There are two limitations with this index, first, it only covers developing countries, which should be fine for our purposes, since the whole Latin American region falls under this category (although we miss a benchmark to compare with) and second, the time series only covers since year 2006 (as the EIU) which is also too short for our purposes.

Other indexes as Freedom of the World, by Freedom House[111] or V-Dem[112], bare also very interesting, but the sources are only experts' assessments, and as we have seen in another section of this dissertation, it is important to have the view of the people on what democracy means and what they expect from it.

Finally, the index IDD – Lat from the Konrad Adenauer Foundation started in 2002 but has been discontinued after 2016. This index considers four dimensions of democracy (citizens, institutional, social and economic democracy) but they apply an instrumental concept of democracy, in the sense explained by professors Lu and Chu that we mentioned above. This, together with the discontinuity, invalidate its application for our work[113].

But let us go back to open access orders. A recent attempt to measure social orders as per the conceptual framework set by North et al, has come to light thanks to the work of Professor Ryan Murphy, a prominent researcher in new institutional economics. His work takes an array of existing indexes to measure economic freedom, liberal democracy, and state capacity, and combine them in a harmonic mean (instead of arithmetical mean), to avoid the mischaracterization of a country strong in two of those factors, but weak in one of them. He considers an open access order when a score of 80 is attained, and thus, he produces a list of 20 countries classified as open access orders as of year 2020 (Murphy, 2023). We find the usual suspects in this list, with Costa Rica, Chile and Uruguay

110 See BTI project web page https://bti-project.org/en/methodology#Index%20aggregation Last access Aug 27th, 2023
111 See https://freedomhouse.org/
112 See https://v-dem.net/
113 See http://idd-lat.org/2016/. For Argentina, the index has been restated in 2021 https://idd-ar.org/, and Mexico has its own index since 2010 https://idd-mex.org/ All web pages last visited on Sep 28th 2023

the only three Latin American countries in the region classified as open access orders in year 2020 (See figure-table 86 below).

HISTORICAL SCORES OF OPEN ACCESS ORDERS
Latin America

| | 1950 | 1960 | 1970 | 1980 | 1990 | 2000 | 2010 | 2015 | 2020 |
|---|---|---|---|---|---|---|---|---|---|
| Argentina | 12,05 | 27,04 | 17,92 | 1,31 | 1,30 | 73,83 | 31,12 | 12,67 | 5,06 |
| Bolivia | 5,70 | 13,79 | 6,04 | 1,45 | 20,98 | 49,22 | 38,81 | 33,59 | 25,34 |
| Brazil | 8,11 | 18,20 | 5,82 | 0,41 | 0,52 | 30,08 | 65,94 | 50,48 | 47,44 |
| Chile | 19,96 | 33,28 | 1,79 | 3,92 | 67,72 | 87,30 | 92,67 | 91,51 | 86,10 |
| Colombia | 10,87 | 31,84 | 16,73 | 4,07 | 9,89 | 27,28 | 54,60 | 56,86 | 50,10 |
| Costa Rica | 37,26 | 78,24 | 87,05 | 44,37 | 79,11 | 91,04 | 87,19 | 91,14 | 90,04 |
| Dominican Rep. | | | 4,75 | 13,45 | 0,51 | 41,95 | 49,87 | 45,91 | 56,31 |
| Ecuador | 24,78 | 23,06 | 5,48 | 33,70 | 24,64 | 26,76 | 36,08 | 36,94 | 49,38 |
| El Salvador | 12,88 | 12,88 | 9,38 | 0,69 | 6,84 | 45,87 | 53,03 | 56,50 | 43,24 |
| Guatemala | 30,05 | 9,79 | 10,31 | 7,20 | 20,66 | 37,57 | 45,27 | 49,84 | 39,45 |
| Honduras | 13,17 | 16,52 | 12,48 | 9,44 | 17,21 | 32,77 | 31,02 | 32,13 | 28,78 |
| Mexico | 15,30 | 17,86 | 21,43 | 10,31 | 24,02 | 52,08 | 55,22 | 51,70 | 54,02 |
| Nicaragua | 3,02 | 2,50 | 1,59 | 0,53 | 0,01 | 28,64 | 27,26 | 20,89 | 11,85 |
| Panama | 25,40 | 27,44 | 15,21 | 13,69 | 39,76 | 62,81 | 63,36 | 66,97 | 66,22 |
| Paraguay | 0,05 | 6,07 | 6,59 | 6,46 | 12,15 | 32,04 | 51,94 | 41,62 | 43,85 |
| Peru | | | | | | | 75,55 | 76,61 | 73,80 |
| Uruguay | 37,44 | 51,55 | 38,62 | 14,55 | 60,94 | 82,16 | 89,35 | 86,11 | 80,33 |
| Venezuela | 15,67 | 46,55 | 62,32 | 52,06 | 22,71 | 23,44 | 0,13 | 0,00 | 0,02 |
| Average | 16,98 | 26,04 | 19,03 | 12,80 | 24,06 | 48,52 | 52,69 | 50,08 | 47,30 |

**FIGURE 103 SOURCE: SELECTED FROM (MURPHY, 2023). SUPPLEMENTARY MATERIALS**

The index is constructed with data from Economic Freedom of the World[114], for economic freedom, the V-dem project for liberal democracy[115], and finally a set of factors from, again, V-dem project for state capacity (O'Reilly & Murphy, 2022).

The attempt is laudable, for it is the first systematic bid to concretise the conceptual framework set by North et al, and it certainly opens a route for new research. Most notably, the work covers a large time series that starts for many countries in 1950, and for a few of them, since 1850[116], but in our opinion there are some flaws that it is worth taking into account, remarkably, that in some

114 This is the index developed by the Frase Institute. We must acknowledge that Professor Murphy is co-author of at least the two latest reports https://www.fraserinstitute.org/studies/economic-freedom-of-the-world-2023-annual-report Last seen Sep 30th, 2023

115 This is the index developed by the V-dem Institute, University of Gothenburg. See https://www.v-dem.net/about/v-dem-project/ Last seen Sep 30th, 2023

116 Note that V-dem Project goes as far as 1789. See https://www.v-dem.net/about/historical-v-dem/ Last seen Sep 30th, 2023

cases, and particularly in the case of Argentina, the index shows an excessive volatility (see figure-table 86 above). There may be setbacks in the march towards an open access order, but such a fall down looks exaggerated, especially if you see that the basics of open access remain high in Argentina in terms of access to political resources and other indexes, like EIU Democracy Index, places Argentina in 2020 well above Mexico. Furthermore, in our opinion, the focus should be placed more in governance than on state capacity, to highlight the importance of the rule of law. Our own attempt for such an index considered World Bank's governance indicators, but the continuation of this development will be out of the current dissertation.

Another point would be, as it is done with the political barometers that we have used earlier in this work, to use surveys that measure the opinion of individuals in regards with access to economic resources. For this matter, barometers like the ones developed by Deloitte or McKinsey companies could be useful.

All in all, the index is consistent with other findings, and particularly, as Professor Murphy acknowledges, it shows a very high correlation with the BTI index mentioned above, for year 2018.

We have chosen to make this multiple regression exercise with our index of reference, the EIU Democracy Index and its components for years 2010 and 2020 to assess two years for which we have full data and to see whether a disruptive event, like the COVID-19 pandemic has had some effect on the correlation. The data only takes into account the countries in Latin America presented in figure-tables 85 and 86 above.

For year 2010, the results are similar to the ones obtained by Professor Murphy with BTI, the correlation being of 0,88 between open access order Index and the EIU democracy index, although there are some shades in the components, like political participation.

Correlation matrix with Open Access Order Index and EIU Democracy Index and components YEAR 2010

| | *Historical Scores of Open Access Orders* | *I Electoral process and pluralism* | *II Functioning of government* | *III Political participation* | *IV Political culture* | *V Civil liberties* |
|---|---|---|---|---|---|---|
| Historical Scores of Open Access Orders | 1 | | | | | |
| I Electoral process and pluralism | 0,883155182 | 1 | | | | |
| II Functioning of government | 0,823886846 | 0,83884 | 1 | | | |
| III Political participation | -0,02706145 | -0,09022 | 0,05111264 | 1 | | |
| IV Political culture | 0,553589244 | 0,489718 | 0,49192688 | -0,09203 | 1 | |
| V Civil liberties | 0,910325887 | 0,926108 | 0,81508536 | -0,06902 | 0,570531 | 1 |

**FIGURE 104 SOURCE OWN ELABORATION WITH DATA FROM MURPHY 2023 AND EIU DEMOCRACY INDEX REPORT 2010**

For year 2020 the results are also within the expected parameters, with a clear improvement in the correlation with political participation, although it is still the lowest score.

Correlation matrix with Open Access Order Index and EIU Democracy Index and components YEAR 2020

| | *Historical Scores of Open Access Orders* | *I Electoral process and pluralism* | *II Functioning of government* | *III Political participation* | *IV Political culture* | *V Civil liberties* |
|---|---|---|---|---|---|---|
| Historical Scores of Open Access Orders | 1 | | | | | |
| I Electoral process and pluralism | 0,685846 | 1 | | | | |
| II Functioning of government | 0,807982 | 0,763584 | 1 | | | |
| III Political participation | 0,52469 | 0,52488 | 0,61678084 | 1 | | |
| IV Political culture | 0,54439 | 0,259744 | 0,66601414 | 0,256289 | 1 | |
| V Civil liberties | 0,771742 | 0,855496 | 0,90576559 | 0,565403 | 0,673402 | 1 |

**FIGURE 105 SOURCE OWN ELABORATION WITH DATA FROM MURPHY 2023 AND EIU DEMOCRACY INDEX REPORT 2020**

If we observe figure-table 85 above, we note that the average open access order index for Latin America has nearly quadrupled from 1980 to 2020, and with the sole exception of Argentina and Venezuela, all countries have improved their stance, although some of them have had setbacks, as predicted by the theory.

Mexico is a notorious case, that has multiplied by five the open access index, between 1980 and 2020, and as we have mentioned above, has allowed for alternation in power, first between PRI and PAN, and then between PRI and MORENA. By some accounts, Mexico has fulfilled the doorstep conditions that we outlined at the beginning of this chapter (Díaz-Cayeros, 2013; p. 233), but it is not reaching yet the category of open access order. There have been institutional arrangements that have favoured achieving maturity and getting to the doorstep at some point, but the elites still manage make prevalent authority relations, especially out of the big cities, due to an incomplete land reform (Díaz-Cayeros, 2013; p. 245), an incomplete elite settlement, as we mentioned above, and we should add a risk of drug cartels dominating part of the territory.

EIU Democracy Index 2020
Latin America

| | Overall score | Global rank | Regional rank | I Electoral process and pluralism | II Functioning of government | III Political participation | IV Political culture | V Civil liberties |
|---|---|---|---|---|---|---|---|---|
| Mexico | 6,07 | 72 | 15 | 7,83 | 5,71 | 7,78 | 3,13 | 5,88 |

**FIGURE 106 SOURCE EIU DEMOCRACY INDEX 2020**

Figure-Table 89 above shows the details for the different components of the EIU Democracy Index in 2020. We see that lowest scores are in political culture and the functioning of government.

The case of Argentina needs a special analysis because other indexes than Professor Murphy's do not give such a notorious reversal for this country. As we saw in the introduction, according to the latest Latinobarómetro, Argentina is one of the few countries where support of democracy has increased by 5 points, and it is currently at 66%, although the support for an authoritarian regime has also increased, but it remains around the average of the region at 18%. When asked about democracy as the best system of government (Churchillian democracy), the answers are overwhelmingly positive at 80%, well above the average of the region, which is at 66% (Latinobarómetro, 2023; p.35), and in year 2020 (to compare closer to Murphy's index), this same indicator for Argentina was at 66%, again above the average in Latin America, that was at 63% for that year. We

certainly observe volatility in individual's, but that does not seem to justify such variations in Murphy's index.

EIU Democracy Index 2020
Latin America

| | Overall score | Global rank | Regional rank | I Electoral process and pluralism | II Functioning of government | III Political participation | IV Political culture | V Civil liberties |
|---|---|---|---|---|---|---|---|---|
| Argentina | 6,95 | 48 | 8 | 9,17 | 5,36 | 6,67 | 5,63 | 7,94 |

**FIGURE 107 SOURCE EIU DEMOCRACY INDEX 2020**

Furthermore, figure-table 90 above shows the details for the different components of the EIU Democracy Index in 2020. We see that Argentina ranks higher than Mexico and that civil liberties, which is closer to free access to economic resources, has a relatively high value. This only indicates that Professor Murphy's new index needs a second thought.

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